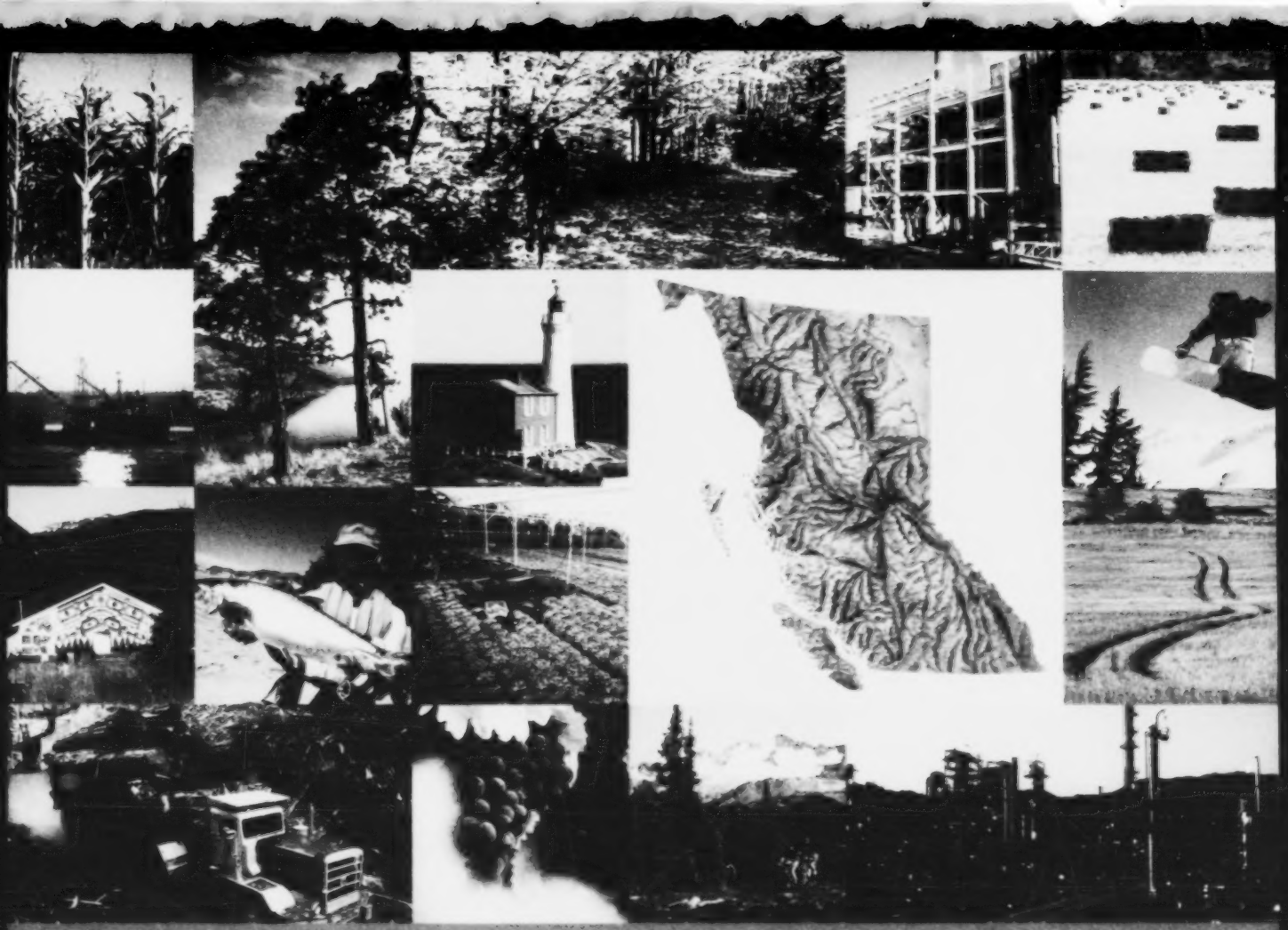

Successful partnerships from across B.C.

Municipal Finance Authority of British Columbia

2002 Annual Report

103-03509/

MFA Annual Report 2002
Successful partnerships from across B.C.

During 2002, we were invited to 50 communities throughout the province to conduct the "Municipal Finance Authority Community Workshop Program." We met with Councils and Staff. We had sessions with Chambers of Commerce, Community Futures Groups and Industrial Development Commission, and we sponsored larger "town hall" meetings attended by interested citizens. The program took many forms – depending on the special needs of each community – and was often a joint effort after discussions and planning with the appropriate municipal officials. ■ We've also travelled across BC showcasing MFABC products and services like the Community Bond program, Sinking Fund Surplus schedules, Debt Maturities and Restructuring. We've learned more about our Clients, their situations, and the challenges they face. We have shared experiences and passed on "what works" around the Province. ■ We are proud to report that the MFABC and local government partnerships continue to work together for the financial well-being of communities throughout BC. Good things are happening across the province: a small sampling of partnership success stories from both urban and rural settings are presented on the following pages.

- ● **PLACES WE VISITED IN 2002**
- ● **LOCATION OF MFA SEMINARS**
- ○ **MFA TRUSTEES' HOME TOWNS**
- ○ **SUCCESS STORIES FROM 2002**

2002 ANNUAL REPORT

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A shining example of working together

The Teamworks Program

In 2002, the City of Richmond and the Local Government Management Association (LGMA) worked together to offer specific expertise by providing consulting services to other local governments at bare cost through the "TeamWorks" program. Richmond staff did an outstanding job by responding to the specific needs of a number of our members this year. The smaller communities really appreciated the jump start! The TeamWorks Program is a splendid example of "thinking outside the box." Larger urban centres like Richmond have come to the realization that the smaller, more rural communities provide the raw resources and energy that contributes to the success of the larger, more urban areas. Here is a sample of the projects and the communities served by this program.

TEAMWORKS USER REQUESTS: 2002

District of Squamish	Advice on process and prioritization of Human Resources issues
City of Castlegar	Examples of operating agreements/ terms of reference for a cultural commission incorporating three separate historical/cultural societies
District of Tofino	Assist in the development of a new zoning bylaw
Village of Zeballos	Nine projects involving engineering and financial options
Village of Lions Bay	Advice on traffic calming options including concept drawings and attendance at a community open house
Village of Lions Bay	Provide coaching, training, and mentoring for senior officials and assist in recruitment of subordinate employees
District of Central Saanich	Deliver a staff training and development needs assessment and other long-service and recognition programs
City of Colwood	Interim replacement of Treasurer function during budget & statement reporting period
City of Quesnel	Provide an HR audit to define functional needs, recommend an organizational structure and possibly provide HR recruitment assistance
City of Armstrong	Provide assistance to three local governments recently removed from NORD emergency planning
District of Sooke	Provide assistance in the development of Official Community Plan to provide a waterfront boardwalk
District of Sechelt	Provide an internal Treasury Department Audit looking for improvements to practices and to establish growth plans to accommodate new technology and service
Village of Pemberton	Landscape design input to facilitate fall planting to beautify three civic areas
City of Dawson Creek	Establishment of a Volunteer Action Plan to facilitate spring clean up similar to "adopt a block" programs
District of 100 Mile House	Provide selection interview questions selection methodologies for numerous PW positions
City of Invermere	Provide training program with customization to city culture for all employees engaged in customer service
Comox-Strathcona Regional District	Investigation of new organizational structure for support services group

Chair Frank Leonard's Message

FRANK LEONARD
MFA Chair

It is my honour to present the Chair's message for the 32nd Annual Report of the Municipal Finance Authority of B.C. The past year has been another incredibly active and successful year for our organization, and it is my pleasure to present this summary to you.

LOCAL GOVERNMENT WORKING TOGETHER

Local government in British Columbia once again helped each other in 2002. The MFA facilitated this sharing of ideas through two new initiatives, our Workshop Program and our Roadshows.

Our MFA staff, together with former Executive Director Jim Craven, initiated workshops with Councils, Regional Boards and staff in communities experiencing significant challenges and change. We shared ideas on how other B.C. communities are coping with similar concerns and considered options for economic game plans. We also offered to assist in the development of these economic plans. There were over 50 Workshops in 2002.

As well, at this Workshop Program our staff delivered seven Roadshows across B.C. We showcased the financial products and investment programs offered by the MFA and were joined by our partners Phillips, Hager & North who focused on investment strategies and KPMG who provided a primer on Public Private Partnerships.

We expect to lead up to 45 more Workshop Programs and Roadshows in 2003 to meet the needs of our communities. We consider them to be another "dividend" to our members in return for their support and participation within the MFA.

NEW DEBENTURE ISSUES

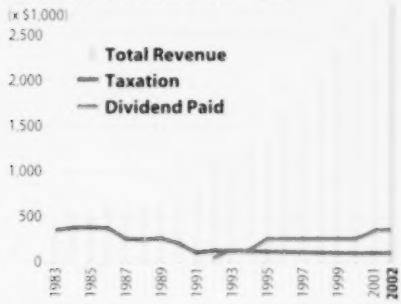
The MFA raised $425 million in three debenture issues in 2002. The benefits of our AAA credit ratings were apparent, as our debenture issuance spread off Canada stayed steady, and actually slightly improved during this volatile year. The capital markets volatility was unparalleled in recent history and accounting irregularities in Corporate America stalled the long awaited economic recovery. As the stock markets declined and monies flowed to the safety of bonds, the MFA once again achieved record low interest rates for 10 year borrowings.

As thoughts of economic recovery were gaining momentum last Spring, we borrowed $195 million. Since short-term rates were much lower than 10 year rates, and we had some bylaw requests for these shorter terms, we borrowed $35 million as a one to five year serial last April. The interest rates on this serial issue ranged from 3.5% to 5.625%. The remaining $160 million was a re-opening of our benchmark June 1, 2011 debenture, which now stands at a respectable $492 million.

On October 3rd, we started a new benchmark issue by launching a $210 million 5.25% coupon due December 3, 2012. This borrowing was an all-time low for an MFA 10 year debenture. We will likely reopen this issue in 2003 to add liquidity, which is the preference of buyers and seller of our credit.

Our last issuance in 2002 was a private placement of $19.5 million for the City of Kelowna. The City had a need for two-year

MFA OPERATING REVENUES



monies and we were able to raise these funds at a very respectable rate of 3.39%, only 6/100's of one-percent above the Bank of Canada's rate.

A GOOD YEAR FOR SINKING FUND SURPLUSES

When local governments repay the principal on debenture issues and loans like these, their payments are invested by the MFA. If the investments earn a greater return than budgeted, these excess earnings are returned to our members as sinking fund surpluses. During 2002, we returned $24.9 million in cash surpluses.

In addition, we often earn sufficient excess funds, allowing our members to stop their payments during the last months or years of a debt issue. In 2002, we advised local governments to stop payments on a further $85 million. Once again, the advantages of working together to achieve both lower interest rates on debt and higher interest rates on investments paid off last year to the tune of almost $110 million.

SEWER AND WATER GRANTS ADMINISTRATION

In the Spring of 2002, the Ministry of Community, Aboriginal and Women's Services approached the MFA to see if the Authority was interested in administering the Ministry's outstanding Sewer and Water grants.

I am pleased to advise that the MFA has now received all the monies up-front and has thereby assured our members' future payments. The amount received from the Province was in excess of $40 million, and payments are now funneled to local governments by the Authority.

RECORD HIGHS IN VOLUNTARY PROGRAMS

Our voluntary financial products had continued success last year. In addition, we are set to launch two new programs as our organization continues to evolve in order to serve our members' needs.

Our Pooled Investment Funds hit an all-time high of $1.42 billion in July 2002, almost $150 million above 2001. At year-end, we still managed over $1.1 billion in funds. This high starting balance makes 2003 look very promising and serves as an endorsement of this MFA program by our members.

The Interim Financing and Leasing programs, which offer rates at 1.25% and 1.00% below prime respectively, crested at almost $300 million last year. Usage of these low cost and very flexible programs, in or out on one day's notice without penalty, helped reduce borrowing costs for local government in B.C.

SINKING FUND YIELDS - 2002
as of Dec. 31, 2002

Weighted Average Yield	
Statutory Sinking Fund	**5.333%**
Debt Fund	**5.947%**
Debt Reserve Fund	**6.264%**
Utilities	**7.209%**
TransLink	**6.715%**
Regional Hospital Districts	**6.047%**

INVESTMENT POOL RETURNS
as of Dec. 31, 2002

Annual Rate of Return	One Year	Since Inception*
BOND FUND		
Municipal Finance Authority**	**5.82%**	**8.88%**
SC Short Term Index**	6.06%	8.49%
INTERMEDIATE FUND		
Municipal Finance Authority**	**2.50%**	**5.68%**
SC 365-Day Treasury Bill Index**	2.89%	5.36%
MONEY MARKET FUND		
Municipal Finance Authority**	**2.50%**	**6.26%**
SC blended 30/91-Day T-Bill Index**	2.37%	5.98%

*Annual Rate of Return **After fees

Due to the success of these programs in 2002, I was pleased to announce dividends to our members totaling $350,000. Since 1992, the cumulative MFA dividends now stand at a very considerable $2.62 million.

The MFA is building on these successes with two new programs. The first, the Commercial Paper Program, is being established to allow the MFA to reduce its cost of short-term monies, and pass these savings onto the users of our Interim Financing and Leasing Programs.

The second program is the Municipal Investment Plan. The MFA has long been recognized by mutual fund managers as a portal to local government elected officials and staff. This single portal is of interest to mutual fund companies since it allows one feed of cash flows instead of thousands from all of the individual investors.

After a due consideration and a lengthy search, your Trustees and Staff have chosen Sun Life Financial as the provider of this new plan. In order to make this voluntary program of interest to local government elected officials, staff and spouses, Sun Life has reduced its management fees by up to 40%. These savings will be passed directly to the Plan's participants.

A REAL TEAM EFFORT

It goes without saying that the MFA operates under a team environment. I believe that the achievements outlined within this report reinforce our 'mantra' that working together results in benefits for all.

One other achievement speaks to the very core of our mandate. I am happy to report that Standard & Poor's has reconfirmed our "AAA" credit rating, and expect Moody's reconfirmation to follow shortly. This is due for the most part, to the structure within which we operate and the financial discipline that all of our members embrace.

These successes are a credit to our Board Members, and particularly the work of our Trustees. This active agenda has required considerably more time and attention from them and I am truly grateful.

Finally I wish to acknowledge the first class job done by our Staff. Led by our new Executive Director, Steve Berna, this small team of dedicated professionals has resulted in a very successful year and an organization we are all proud of.

Thanks to our Members, Trustees, and Staff, the year ahead looks just as promising.

FRANK LEONARD
Chair, Municipal Finance Authority of British Columbia

The Lower Mainland and Fraser Valley

Green Energy put to use in West Vancouver

The District of West Vancouver combined forces recently with Pacific Cascade Hydro Inc in a unique partnership. By harnessing water flow from the municipality's Eagle Lake water supply, "green energy" is generated. With the installation of a turbine above the reservoir, hydroelectricity will be produced by the water moving downhill in the water distribution system. About 20% of the municipality's power needs will be produced (estimated 1.1 giga-watt hours hourly). As well as generating environmentally friendly power, the project puts $700,000 into the municipal coffers over the 20-year life of the project.

In another interesting and environmentally friendly project, the design of the Community Centre at Gleneagles in West Vancouver integrates structural, mechanical, and electrical systems to foster environmental sustainability while minimizing operating costs. Through the use of a thermo-slab system, heating and cooling within the 23,000 sq. ft. facility is accomplished by allowing the walls and floors to act as radiant surfaces accomplishing a 50% saving in energy use.

Big projects for the Vancouver area

The Greater Vancouver Regional District is building a new turbo-generator in Burnaby. This impressive engineering feat will take steam generated from the burning of municipal refuse and convert it to electricity. The Greater Vancouver Transit Authority (GVTA) is proud of their new SkyTrain cars and some smaller buses. Both of these acquisitions have been made possible through financial tools provided by the MFABC.

Public Private Partnerships working with Chilliwack

This Fraser Valley city has been one of the BC leaders in the area of Public Private Partnerships (3P). Since 1995 all capital works projects undertaken have been through a design and build program. The City estimates they have saved an estimated 20% on a $58 million Capital Program. A recent partnership with the Province and the private sector resulted in the development of the Law Courts Project. This new focus of the city centre includes a civic plaza, clock tower and a commercial development. Chilliwack has also recently partnered with the Fraser Valley Regional District and the private sector to provide offices for the Regional District and a fire hall for the City. More significantly, both the City and the Regional District combined their resources and identified common areas resulting in better facilities and a mutual reduction in cost.

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MFA Members 2002

The Municipal Finance Authority is comprised of 35 appointed members representing each of British Columbia's 27 regional districts. Some regional districts are entitled to appoint more than one member based on larger populations. The members of the MFA meet twice each year, once at the Annual General Meeting in March and again in September or October.

MFA members in turn elect 10 trustees at the Annual General Meeting. The board of trustees is comprised of a chair, vice chair and eight trustees. Of the 10 trustees, four must be from the Greater Vancouver Regional District, one from the Capital Regional District and five from the remaining regional districts. The trustees work closely with staff year-round to determine the policies that guide the MFA's operations.

REGIONAL DISTRICT	MEMBER
Alberni-Clayoquot	M. Kokura
Bulkley-Nechako	T. Euverman
Capital	F. Leonard (Chair)
Capital	D. Amos
Cariboo	G. Sehn
Central Coast	G. Wells
Central Kootenay	J. Voykin
Central Okanagan	R. Hobson*
Columbia Shuswap	R. Martin
Comox-Strathcona	D. Andrews
Cowichan Valley	M. Coleman*
East Kootenay	J. Ogilvie
Fraser-Fort George	C. Kinsley (Vice-Chair)
Fraser Valley	T. Raymond
Greater Vancouver	J. Kingsbury
Greater Vancouver	M. Grinnell
Greater Vancouver	H. Sparkes*
Greater Vancouver	B. Sharp
Greater Vancouver	K. Kumagai*
Greater Vancouver	D. Drummond
Greater Vancouver	V. Durman*
Greater Vancouver	H. Staub*
Kitimat-Stikine	J. Talstra
Kootenay Boundary	R. Hardie
Mount Waddington	G. Furney*
Nanaimo	J. Stanhope
North Okanagan	J. Oglow
Northern Rockies	J. Sime
Okanagan-Similkameen	D. Ashton
Peace River	B. Hendley
Powell River	H. Beauchesne
Skeena-Queen Charlotte	W. Beldessi
Squamish-Lillooet	P. Lalli
Sunshine Coast	D. Murray
Thompson-Nicola	J. Ranta*

*Trustee

OFFICERS	
Executive Director	Steve Berna
Director of Finance	Graham Egan

2002 Trustees

M. COLEMAN
Cowichan Valley

V. DURMAN
Greater Vancouver

G. FURNEY
Mount Waddington

R. HOBSON
Central Okanagan

C. KINSLEY (VICE-CHAIR)
Fraser-Fort George

K. KUMAGAI
Greater Vancouver

F. LEONARD (CHAIR)
Capital

J. RANTA
Thompson-Nicola

H. SPARKES
Greater Vancouver

H. STAUB
Greater Vancouver

Kootenays

Saving money and improving service with a Regional Policing program

The City of Trail's existing police detachment building was reaching the end of its useful life. Rather than constructing a new building, the City entered into a contract with the RCMP to house all police from the surrounding area. This allowed two detachments to relocate. The City benefitted by recovering 47% of the cost of the new facility from the province. Because of the efficiencies of the new arrangement, savings on staffing requirements was achieved. The projected overall savings to the City was $1 million. What's more, the consolidation also improved service by allowing 24 hour policing to the entire area – a service which was previously impossible to fund.

Kimberley pulls together for a new Health Centre

In May 2002, the Kimberley Hospital was closed as part of the provincial government's cost cutting measures. Realizing a critical loss, City Council quickly developed a strategy to re-establish the valuable medical services and jobs.

The first step was the purchase of the hospital building and equipment in November 2002 for a negotiated cost of approximately $155,000, despite the assessed value of approximately $5,000,000. Committees were set up to determine the type of services to be provided and how the building would be occupied and operated. The intent was to establish primary heath care and consolidate other services presently in the community while at the same time attract new tenants including doctors. The Interior Health Authority (IHA) has agreed to move to the site and renovate the building for their use.

Currently, the governance and operation of this new facility is under review, and the City is developing preliminary business plans for consideration by Council. Proposed tenants include IHA, doctors, and private surgical services as well as a broad range of private medical and social services. This is an exciting example of how a community and local government has pulled together to solve a difficult health care crisis.

MFA Management and Staff

Our staff prides itself in its ability to provide seamless service to our Clients. In addition to specific responsibilities for MFA programs and operations, each staff member receives extensive cross-training to become familiar with every aspect of our organization. Have a question? Need more information? We have the answers. Please contact us at 250-383-1181 or the e-mail addresses below.

STEVE BERNA, C.A.
steve@mfa.bc.ca
Executive Director

Steve works closely with the MFA's Board of Trustees to establish programs, new financial products and services and oversees the MFA's operations. His main responsibilities focus on the areas of capital financing and debt restructuring, and building strong working relationships with MFA Clients and its underwriting syndicate. Steve is also the voice of the MFA at international conferences. He is a board member of the Government Finance Officers Association of BC, the Local Government Management Association's education committee, and CivicInfo's Board of Directors.

GRAHAM EGAN, C.A.
graham@mfa.bc.ca
Director of Finance

Graham is responsible for the overall management of investments and debt issue maintenance, as well as the projection of sinking fund surpluses, stop payments and future debt costs. Graham also supervises the accounting department and preparation of our annual financial statements.

LORNA ARMITAGE
lorna@mfa.bc.ca
Receptionist

Lorna's broad knowledge of all MFA programs enables her to efficiently help our Clients make the most of our services. She is the front line of the MFA and tracks all of the correspondence coming in and out of the office. Lorna also works closely with our partners LGMA and CivicInfo.

ALLISON BOYD
allison@mfa.bc.ca
Executive Assistant

Allison works closely with the Executive Director. She arranges all travel for our staff and is also responsible for M[illegible]3 Members' activities, Board of Trustees, annual report, web site, brochures and marketing material.

MARGUERITE FENSKE
marguerite@mfa.bc.ca
Program Coordinator

Marguerite helps coordinate new projects, and designs presentations for the MFA with the Executive Director. She is responsible for the administration of new MFA programs and travels throughout the province promoting them. Marguerite is a member of the Len Traboulay Education Fund committee.

SHELLEY HAHN
shelley@mfa.bc.ca
Manager of Accounting

Shelley oversees the day-to-day accounting for all of our programs. She prepares our monthly and annual financial statements and administers our Debt Reserve Fund. Shelley is also responsible for the administration of all bylaws leading up to our debt issuance.

RENATA N. HALE, CGA, BACCS
renata@mfa.bc.ca
Accountant

Renata works closely with the Manager of Accounting, maintaining the accounting records for the Capital Financing program. She is also responsible for administering the disbursements under the Province's former Sewer & Water grants program. As well, Renata is responsible for the Pooled Investment Fund Program.

JANE MORRISON, BA ECON.
jane@mfa.bc.ca
Accountant

Jane is responsible for the daily operations of our Leasing Program as well as the Interim Financing Program. She also performs all internal accounting for our operating fund. Jane oversees the long-term debt issue invoicing.

North Country

Cruising plans for the City of Prince Rupert

The City of Prince Rupert has initiated a program to ensure a cruise ship docking facility with assistance from the Province of BC, the federal government and the local Port Authority. The potential for cruise ships to include the City as a destination is a certainty. The docking facility is adjacent to the large and efficient downtown. As the facility becomes reality, it will improve employment. A regular infusion of cruise ship patrons to Prince Rupert downtown will create new customers for the retail sector as well as showcase the City and environs as a destination for increased adventure tourism.

A new road to prosperity in Terrace and Stewart

Terrace and Stewart have been working together on the feasibility of jointly owning a toll road which would generate revenue as well as provide a boost for local employment and the economy. The plan would see a toll road built from Kemess Mine in the northwest to the port of Stewart resulting in a considerably shorter hauling distance than Vancouver. The road would provide access for harvesting a large area of mature timber. There is also potential for partnering with First Nations in the area to improve their land accessibility. Extensive studies have been carried out and the plan appears to be quite practical. At this time, the Province has indicated that the research should continue.

Beautification proves to be a winner for Williams Lake

Four years ago, Williams Lake began participating in the "Communities in Bloom" Canadian competition. As a result, the streets are now filling with impressive garden designs including : murals throughout the downtown centre; hanging floral baskets; exposed aggregate planters, and colourful banners. Boitanio Park in the centre of the city is now a bustling, integral part of everyday life in Williams Lake. Most businesses and many homeowners have also taken up beautification projects.

Williams Lake has taken home three first place finishes in the Communities in Bloom Program in its population category, including Best Provincial and Best National award, this year taking first place for Best Team Effort in the Canadian Classic division with partner, the City of Langley.

To take a stroll along one of the streets is a visual treat, and well worth the trip into the city.

McBride Community Forest becomes a reality

The Village Council first explored the concept of developing a community forest in 1996, however it wasn't until 1999 that the idea was seriously pursued. Undaunted by several setbacks, the village was finally successful and the McBride Community Forest concept was approved by the Minister in March of 2001.

Client participation in MFA programs

From regional districts to municipalities to first nations to regional libraries, the Municipal Finance Authority is helping to build local communities across British Columbia. All in all, more than 280 groups participate in at least one of our three voluntary programs: Pooled Investments, Interim Financing or Leasing. In addition to being able to finance capital projects at low interest rates, participants receive dividends from our Pooled Investment Program, save money on short-term borrowing, and lease equipment or rolling stock at competitive rates.

PARTICIPATION IN MFA PROGRAMS

PI = Pooled Investments
IF = Interim Financing
LE = Leasing
✓ = yes = "in program"
• = no = "not in program"
n/a = not applicable or not available

Regional Districts:	**PI**	**IF**	**LE**		**PI**	**IF**	**LE**		**PI**	**IF**	**LE**
Alberni-Clayoquot	•	•	✓	East Kootenay	✓	•	✓	North Okanagan	✓	✓	✓
Bulkley-Nechako	✓	•	•	Fraser-Fort George	✓	•	✓	Okanagan-Similkameen	✓	✓	✓
Capital	✓	✓	✓	Fraser Valley	•	✓	✓	Peace River	✓	✓	•
Cariboo	✓	•	✓	Greater Vancouver	•	•	✓	Powell River	•	•	✓
Central Kootenay	✓	•	✓	Kitimat-Stikine	✓	•	•	Skeena-Queen Charlotte	✓	•	✓
Central Okanagan	✓	•	✓	Kootenay Boundary	✓	✓	✓	Squamish-Lillooet	✓	•	✓
Columbia Shuswap	✓	•	•	Mt. Waddington	✓	✓	✓	Sunshine Coast	✓	•	✓
Comox-Strathcona	•	✓	✓	Nanaimo	✓	•	✓	Thompson-Nicola	✓	•	✓
Cowichan Valley	✓	•	✓	Northern Rockies	✓	•	✓				

Municipalities:	**PI**	**IF**	**LE**		**PI**	**IF**	**LE**		**PI**	**IF**	**LE**
100 Mile House	✓	•	✓	Golden	✓	✓	•	New Denver	✓	•	•
Abbotsford	✓	•	•	Gold River	✓	•	✓	New Hazelton	✓	✓	•
Alert Bay	✓	✓	✓	Grand Forks	•	•	✓	New Westminister	✓	•	•
Anmore	✓	•	✓	Granisle	✓	•	•	North Cowichan	✓	•	✓
Armstrong	✓	✓	✓	Greenwood	✓	✓	✓	North Saanich	✓	•	✓
Ashcroft	✓	✓	✓	Harrison Hot Springs	•	•	✓	North Vancouver (City)	•	•	•
Belcarra	✓	•	•	Hazelton	✓	•	•	North Vancouver (District)	✓	•	✓
Bowen Island	✓	•	✓	Highlands	•	•	✓	Oak Bay	✓	✓	✓
Burnaby	✓	•	•	Hope	✓	✓	✓	Oliver	✓	•	✓
Burns Lake	✓	•	✓	Houston	✓	✓	•	Osoyoos	•	•	✓
Cache Creek	✓	•	•	Hudson's Hope	•	•	✓	Parksville	✓	✓	•
Campbell River	✓	•	✓	Invermere	✓	•	✓	Peachland	✓	✓	✓
Castlegar	✓	•	•	Kamloops	✓	•	✓	Pemberton	✓	✓	✓
Central Saanich	✓	•	•	Kaslo	✓	✓	✓	Penticton	✓	✓	•
Chase	✓	•	✓	Kelowna	✓	•	•	Pitt Meadows	✓	✓	•
Chetwynd	✓	•	✓	Kent	✓	•	✓	Port Alberni	✓	✓	✓
Chilliwack	✓	•	•	Keremeos	✓	✓	✓	Port Alice	✓	•	✓
Clinton	✓	•	✓	Kimberley	✓	•	✓	Port Coquitlam	✓	•	•
Coldstream	✓	✓	✓	Kitimat	✓	•	•	Port Edward	✓	✓	✓
Colwood	✓	•	✓	Ladysmith	✓	✓	✓	Port Hardy	✓	•	✓
Comox	✓	•	✓	Lake Country	✓	✓	•	Port McNeill	✓	•	•
Coquitlam	✓	•	•	Lake Cowichan	✓	•	✓	Port Moody	✓	•	✓
Courtenay	✓	✓	✓	Langford	✓	✓	✓	Pouce Coupe	✓	•	✓
Cranbrook	✓	✓	•	Lillooet	✓	•	•	Powell River	✓	•	✓
Creston	✓	•	✓	Lumby	✓	•	✓	Prince George	✓	•	✓
Cumberland	✓	✓	✓	Lytton	•	•	✓	Prince Rupert	✓	✓	✓
Dawson Creek	✓	•	✓	Mackenzie	✓	•	✓	Princeton	✓	•	•
Delta	•	•	✓	Maple Ridge	✓	•	✓	Qualicum Beach	✓	•	•
Duncan	✓	✓	✓	McBride	✓	•	✓	Quesnel	•	✓	✓
Elkford	•	•	•	Matsqui	✓	•	•	Radium Hot Springs	✓	•	✓
Enderby	✓	•	•	Merritt	✓	✓	✓	Revelstoke	✓	•	✓
Esquimalt	✓	✓	•	Metchosin	✓	•	•	Richmond	✓	•	✓
Fernie	✓	•	✓	Midway	✓	•	✓	Rossland	✓	✓	✓
Fort Nelson	•	•	✓	Mission	✓	•	✓	Saanich	✓	✓	✓
Fort St. James	•	•	✓	Montrose	✓	•	✓	Salmo	•	•	✓
Fort St. John	✓	✓	✓	Nakusp	✓	✓	✓	Salmon Arm	✓	✓	•
Fruitvale	•	•	✓	Nanaimo	✓	•	•	Sayward	✓	•	✓
Gibsons	✓	•	•	Nelson	✓	•	✓				

continued on page 13

The Coast

A new museum and park projects for the Village of Masset

Masset encouraged the Dixon Entrance Maritime Museum by leasing a historic building to them at the rate of $1 per year. The museum contains a comprehensive collection of the history of canning, whaling, and boat building industries and also houses the tools of another era used by telegraphers, fishing folk, and whalers. The museum building started out as a hospital then became a school and now is an important part of the tourist industry on the islands. Another project completed is the Ruth Stewart-Burton Park and Gazebo and the Dekatla Sanctuary, all recent additions for the enjoyment of visitors and residents.

Exciting potential for winter tourism in Bella Coola

Bella Coola has been adversely effected by troubles in the logging and fishing industry. An unexpected ray of light came in the form of a pictorial article in *Powder Magazine* last spring. The magazine gave very high marks to the area as a wonderful place to heli-ski and a great deal of interest was generated with Tweedsmuir Lodge being the recipient of solid bookings for the coming season. A special permit was required for the heli-ski company and MFABC was one of the many organizations who lobbied the Province of British Columbia on Bella Coola's behalf. The permit has been granted and another heli-ski operator has already been given conditional approval as well. This could be a very important employment and an economic generator for the valley.

The MFABC involvement in workshops and support is typical of another aspect of the Community Workshop Program process. In addition, the threat to discontinue the tourism "circle route" (BC Ferries from northern Vancouver and the road to Williams Lake) was met successfully when, after vigorous representation, the Province agreed to guarantee ferry service for another five years.

Municipalities (cont'd):	PI	IF	LE		PI	IF	LE		PI	IF	LE
Sechelt	✓	•	✓	Surrey	✓	•	•	Vernon	✓	•	•
Sicamous	✓	✓	✓	Tahsis	✓	•	•	Victoria	✓	•	•
Sidney	✓	✓	✓	Taylor	•	•	✓	View Royal	✓	•	•
Silverton	✓	•	✓	Telkwa	✓	•	✓	Warfield	•	•	✓
Slocan	✓	•	•	Terrace	✓	•	•	Wells	•	•	✓
Smithers	✓	✓	✓	Tofino	•	•	✓	West Vancouver	✓	•	•
Sooke	•	•	✓	Trail	✓	✓	✓	Whistler	✓	•	✓
Sparwood	✓	•	✓	Tumbler Ridge	✓	•	✓	White Rock	✓	✓	✓
Squamish	•	✓	•	Ucluelet	✓	✓	✓	Williams Lake	•	•	•
Stewart	✓	•	✓	Valemount	✓	•	✓	Zeballos	✓	•	✓
Summerland	✓	•	•	Vanderhoof	•	•	✓				

First Nations:	PI	IF	LE		PI	IF	LE		PI	IF	LE
Adams Lake Indian Band	✓	n/a	n/a	Millbrook First Nation	✓	n/a	n/a	T'it q'et Nation	✓	n/a	n/a
Chawathil Indian Band	✓	n/a	n/a	Namgis First Nation	✓	n/a	n/a	Te mexw Treaty Association	✓	n/a	n/a
Chemainus First Nation	✓	n/a	n/a	Old Massett Village Council	✓	n/a	n/a	Tsawwassen First Nation	✓	n/a	n/a
Ch-ihl-kway-uhk Tribe Society	✓	n/a	n/a	Seabird Island Indian Band	✓	n/a	n/a	Tzeachten Indian Band	✓	n/a	n/a
Kamloops Indian Band	✓	n/a	n/a	Skowkale Band Taxation	✓	n/a	n/a	Westbank First Nation	✓	n/a	n/a
Kwaw Kwaw Pilt Band	✓	n/a	n/a	Sliammon First Nation	✓	n/a	n/a	Westbank First			
Lakahahmen Band Taxation	✓	n/a	n/a	Songhees Esquimalt First Nation	✓	n/a	n/a	Nation Taxation	✓	n/a	n/a
Matsqui Band Taxation	✓	n/a	n/a	Stó:lo Nation	✓	n/a	n/a	White Bear Taxation	✓	n/a	n/a

Hospital/Regional Hospital Districts:	PI	IF	LE		PI	IF	LE		PI	IF	LE
Alberni-Clayoquot	✓	✓	n/a	Kelowna General				Okanagan-Similkameen			
Bulkley-Nechako	✓	•	n/a	Hospital Foundation	✓	•	n/a	Health Region	✓	•	n/a
Capital	✓	✓	n/a	Kootenay East	✓	✓	n/a	Peace Liard	✓	•	n/a
Cariboo	✓	•	n/a	Lillooet District Hospital Society	✓	•	n/a	Peace Lutheran Care Centre	✓	•	n/a
Central Okanagan	•	✓	n/a	Mater Misericordiae				Peace River	✓	✓	n/a
Chase Diagnostic &				Health Care Facility	✓	•	n/a	Saanich Peninsula Hospital			
Treatment Centre	✓	•	n/a	Mt. Waddington	•	✓	n/a	Society	✓	•	n/a
Chemainus Health Care Centre	✓	•	n/a	Mt. Waddington Community				Skeena-Queen Charlotte	•	✓	n/a
Children's and Women's				Health Council	✓	•	n/a	Sparwood General Hospital	✓	•	n/a
Health Centre of BC	✓	•	n/a	Nanaimo	✓	✓	n/a	Stuart-Nechako	✓	•	n/a
Coast Garibaldi				North Okanagan Health Regional –				Sunshine Coast	✓	•	n/a
Regional Hospital	✓	•	n/a	Shuswap Health Service	✓	•	n/a	Terrace and Area Health Council	✓	•	n/a
Comox-Strathcona	•	✓	n/a	Northern Interior Regional				Thompson	✓	✓	n/a
Cowichan District Hospital	✓	•	n/a	Hospital	✓	•	n/a	Thompson-Nicola	✓	•	n/a
Delta Centennial Hospital	✓	•	n/a	Northwest	•	✓	n/a	Trail Regional Hospital	✓	•	n/a
East Kootenay	✓	•	n/a	Okanagan-Similkameen	✓	•	n/a	Vernon Jubilee Hospital Society	✓	•	n/a
Fraser Fort George	✓	✓	n/a					West Kootenay-Boundary	•	✓	n/a

Others:	PI	IF	LE		PI	IF	LE		PI	IF	LE
Association of Kootenay				Greater Napenee, Ontario	n/a	n/a	✓	Okanagan Mainline Municipal			
& Boundary Municipalities	✓	n/a	n/a	Hedley Improvement District	✓	n/a	n/a	Association	✓	n/a	n/a
Barriere Improvement District	✓	n/a	n/a	Iroquois Falls, Ontario	n/a	n/a	✓	Okanagan-Kootenay Sterile	•	✓	n/a
Bighorn, Alberta	n/a	n/a	✓	Jasper, Alberta	n/a	n/a	✓	Insect Release			
Bluewater, Ontario	n/a	n/a	✓	Lambton Shores, Ontario	n/a	n/a	✓	Razor Point Improvement District	✓	n/a	n/a
Board of Cemetery Trustees				Lund Waterworks				Shawnigan Improvement District	✓	n/a	n/a
of Greater Victoria	✓	n/a	n/a	Improvement District	✓	n/a	n/a	South East Kelowna			
Capital Regional Housing				Mt. Parke Estates				Irrigation District	✓	n/a	n/a
Corporation	✓	n/a	n/a	Improvement District	✓	n/a	n/a	Stettler, Alberta	n/a	n/a	✓
Central Huron, Ontario	n/a	n/a	✓	Municipal Finance				Tecumseh, Ontario	n/a	n/a	✓
CivicInfo BC	✓	n/a	n/a	Authority of British Columbia	✓	✓	•	Thorold, Ontario	n/a	n/a	✓
Columbia Basin Trust	✓	n/a	n/a	Municipal Insurance Association	✓	n/a	n/a	Union of BC Municipalities	✓	n/a	n/a
CREST	•	✓	✓	Municipal Officers' Association				Vancouver Island			
Dawson City, Yukon	•	n/a	✓	(LGMA) Investment Fund	✓	n/a	n/a	Municipal Association	✓	n/a	n/a
Fraser Basin Council Society	✓	n/a	n/a	Naramata Water System	✓	n/a	n/a	Vancouver Island			
Fraser Valley Regional Library	✓	n/a	n/a	Nootka Sound Economic				Regional Library	✓	n/a	n/a
Gananoque, Ontario	n/a	n/a	✓	Development Corp.	✓	n/a	n/a	Welland, Ontario	n/a	n/a	✓
Government Finance Officers'				North Central Municipal				Westbank Irrigation District	✓	n/a	n/a
Association	✓	n/a	n/a	Association	✓	n/a	n/a	West Shore Parks and			
Grand Forks Irrigation District	✓	n/a	n/a					Recreation	•	✓	n/a

School Districts/ Colleges/Universities:	PI	IF	LE		PI	IF	LE		PI	IF	LE
Capilano	•	n/a	✓	School District #6 –				School District #75 – Mission	✓	n/a	n/a
Camosun	•	n/a	✓	Rocky Mountain	✓	n/a	n/a	University of Northern			
College of the Rockies	✓	n/a	•	School District #50 –				British Columbia	✓	n/a	•
Langara	•	n/a	✓	Queen Charlotte	✓	n/a	n/a				
New Caledonia	•	n/a	✓	School District #74 – Gold Trail	✓	n/a	n/a				

Vancouver Island

Working together under one roof in the City of Parksville

Parksville has brought together a diverse cast of players to produce the Parksville Civic & Technology Center. This model combines the regional space needs of Malaspina University-College, School District No. 69, and Parksville's City Hall into one facility, along with the Vancouver Island Regional Library as a major tenant. The same area serves as a meeting room for the School Board, the City Council, as a Lecture hall for the University-College as well as a Theatre for the Library. Integration is also applied to telephones, computers, photocopiers, reception and switchboard staff, coffee rooms and so on. Parksville reports the project is being paid for by the sale of up-zoned civic properties which also facilitates the planning process of the downtown.

Tourism welcome in the Village of Zeballos

Zeballos celebrated its 50th year of incorporation by establishing a wonderful trail system encompassing a pristine part of an estuary, continuing to an old mill site and connecting a historic part of the town. The next project will be the establishment of a mountain-bike trail to Tahsis. All of this has been done through a series of partnerships with Western Forest Products. Major marketing of the beauties of the Village and environment continues and the tourism trade is increasing yearly.

Back to the future in Port Alberni

Port Alberni's Mclean Mill, the only steam powered sawmill in Canada, is a showcase of pioneering get-it-done attitude and inventiveness. The mill is typical of the remote coastal lumber camps and sawmills of the last century and has been named a National Historic Site. The experience begins at the 1912 CPR Train Station where you board the Alberni Pacific Railway train pulled by the completely restored 1929 Baldwin ex-logging steam locomotive arriving at the sawmill in 35 minutes. The steam sawmill cuts wood, and you can explore the site and examine the steam donkey, logging trucks, graders, and lumber carriers. Since 1995 the site has been restored with a $10 million grant through a number of agencies.

New developments in the District of Langford

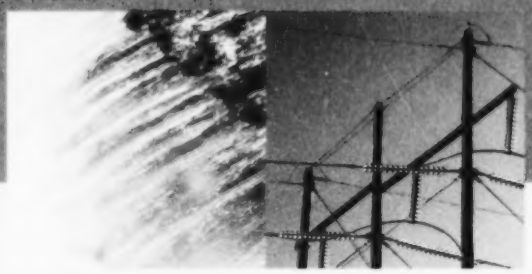
Through firm policy guidelines and delegation of authority, Langford staff have cut their average Development Permit issuance time from 82 days to 36 days. This may be of interest to other municipalities in BC where the process can take up to half a year. Their new City Hall is located on the second floor of a privately owned office building. The recent downtown revitalization program has been a participation success with new development. These partnerships clearly identify the community focus for the new downtown Langford.

Financial Summary

THOUSANDS OF DOLLARS

AT DECEMBER 31	2002	2001
CAPITAL FINANCING		
Total assets – combined funds	**4,391,062**	4,309,203
Loans to Clients outstanding	**2,935,516**	2,832,474
Long-term debt outstanding	**3,580,977**	3,385,891
Investments, including sinking funds	**1,144,195**	1,149,979
Long-term debt, net of investments	**2,436,782**	2,235,912
Debt Reserve Fund, total assets	**253,009**	258,187
YEAR ENDED DECEMBER 31		
New loans to Clients	**380,292**	373,043
Loan repayments from Clients	**276,463**	248,542
New debt issued	**405,133**	372,300
Debt retired	**227,576**	230,591
Investment income	**75,631**	89,121
Interest paid	**237,522**	241,139
POOLED INVESTMENTS		
Money Market Fund – Unitholders' Equity	**831,547**	679,926
Intermediate Fund – Unitholders' Equity	**105,296**	167,120
Bond Fund – Unitholders' Equity	**201,507**	171,985
INTERIM FINANCING AND LEASING FUNDS		
Loans outstanding	**195,508**	263,522

The Interior



Economic development plans in the Okanagan-Similkameen

The Regional District set out to identify a region-wide economic development theme and brand. The program focussed on marketing key themes associated with the region. By using marketing tools such as brochures and a website they included the exceptional climate, lifestyle advantages, an "open for business" environment, recreational opportunities, landscape and natural features, agriculture, vineyards and wineries, and a friendly/rural ambiance. The Board then approved a "brand" for display in District advertising and promotional materials: "The Climate is Right... good for business... good for life."

Putting out fires in the District of Logan Lake

Logan Lake is located in a dry forested environment and wildland fire has always been a concern. A recent fire prompted a partnership of the Local Volunteer Fire Department, Ministry of Forests, Logan Lake High School (Forestry Class), RCMP and Municipal Emergency Program personnel. As a result, the "Junior Firefighters" was formed with great potential. The program works so well it is being studied in other parts of the province.

City of Armstrong

Armstrong recently ended the discharge of treated sewage into a creek and started using it for watering crops. An expansion of the serviced area, an all-weather system, has helped local farmers to switch from dry land farming to forage crops, thereby doubling and tripling their gross income per acre. Areas that produced very poorly have been rejuvenated by the irrigation. This program has been so successful that current users of the system all want further expansion.

City of Revelstoke

Revelstoke has formed a unique partnership with the Revelstoke Community Energy Corporation (a wholly owned subsidiary of the City). That subsidiary, partnered with Downie Lumber, is building and operating a combined heat and power plant. The plant will consume 80,000 green tonnes per year of wood residue, producing steam for generation of electricity. The sale of that electricity to BC Hydro is assured. The residual heat energy will operate dry kilns and the community energy system. There will be a 90% reduction in particulate emissions from that of current incineration plus a potential for reduction in greenhouse gas emissions. A key driver of the project is the replacement of imported fossil fuels with a local renewable fuel. The use of a silo burner and an inefficient propane boiler will end and all the wood waste in the area will be utilized. All these benefits are the result of the use of previously "waste" energy.

Information for Investors and Financial Statements

INFORMATION FOR INVESTORS

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Investor Highlights

2002 DEBENTURE ISSUES

Three debenture issues were launched in 2002 raising a total of $425 million.

- **April 2002** - $195 million. This issue was comprised of a $160 million re-opening of the spring 2001 issue and a $35 million new 5 year serial issue at 3.500% to 5.625% due June 1, 2007.
- **October 2002** - $210 million at 5.25% due December 3, 2012 debenture.
- **November 2002** - $19.5 million at 3.39% due November 8, 2004.

PROJECTED BORROWINGS

In keeping with our practice of maximizing liquidity for the benefit of MFA investors, we anticipate that our spring 2003 debenture will re-open the 5.25% December 3, 2012.

Projected Borrowings	
2003	$202 million
2004	$292 million
2005	$304 million
2006	$315 million

PILLARS OF OUR "AAA" CREDIT RATING

The MFA has earned a AAA credit rating from both Standard & Poor's and Moody's Investors Service, the highest level attainable by any debt issuer. Our credit rating is built on pillars of responsible legislation and judicious financial management:

- **Prudent Borrowing Powers** – Each MFA Client is governed by a borrowing power calculation that sets a ceiling on debt capacity.
- **Balanced Budgets** – Municipalities and regional districts are required to be fiscally responsible by maintaining balanced budgets.
- **Self-liquidating Projects** – Inspector of Municipalities reviews and approves all sewer and water bylaws to ensure that they are self-liquidating.
- **Healthy Local Governments** – Ministry of Community, Aboriginal and Women's Services tracks statistics on the health of each local government, and reviews these statistics and other information prior to approving the borrowing bylaws.
- **Strong Reserve Fund** – The MFA's debt reserve fund is used as the first line of defence in case of any default on repayments by its Clients. No defaults have ever occurred.
- **Extended Protection** – In addition, the MFA has a $350 million line of credit at its disposal.
- **Excellent Debt Coverage** – Municipal Reserves and Surpluses exceed their Net Debt by a ratio of 1.5 times.
- **Taxing Powers** – Without needing approval from any other level of government, the MFA can impose a tax on virtually all the land and improvements in the province.

DEBT ANALYSIS AT DECEMBER 31, 2002:

THOUSANDS OF DOLLARS

Long-term debt outstanding	$3,580,977
Investments, including sinking funds	1,144,195
Long-term debt, net of investments	2,436,782
Municipal Reserves and Surpluses	3,529,773
Debt Reserve Fund	253,009

COMMERCIAL PAPER PROGRAM

The Authority is continuing to pursue alternative financing for its Leasing and Interim Financing programs through a Commercial Paper Program. The program will enable the MFA to borrow at a lower rate and pass the savings on to our Members. We are in the process of selecting a dealer group and finalizing our short-term credit rating. We anticipate launching the program near the end of spring.

MUNICIPAL INVESTMENT PROGRAM

Effective March 1, 2003 the MFA is pleased to introduce the new Municipal Investment Plan. Over the past year the MFA has been involved with the design and implementation of this Investment Program for BC Municipal Employees, Elected Officials and their spouses / partners. We are now in the final stage of negotiations with the service provider, Sun Life Financial, and will be starting to accept applications in February. Using the potential of 35,000 BC Municipal Employees and 1500 Elected Officials we were able to negotiate with Sun Life a reduction in investment management fees (up to 40% depending on the fund). The plan will offer an extensive selection of funds in both the registered and non-registered categories from a variety of highly regarded fund managers.

The Municipal Finance Authority at a Glance

How we operate

RESPONSIBILITY

The Municipal Finance Authority of British Columbia was established in 1970 by the Municipal Finance Authority of British Columbia Act.

Regional districts and B.C. municipalities finance all long-term capital requirements through the MFA, except those met by senior levels of government.

Since 1995, our Client base has expanded to include Greater Vancouver Water District and the Greater Vancouver Sewerage and Drainage District (Utilities), Emergency Communications for Southwest British Columbia (E-Comm), Regional Hospital Districts (RHD) and the Greater Vancouver Transportation Authority (GVTA or TransLink).

The City of Vancouver is the only municipality that retains the right to issue its own securities to finance capital projects. Taxable land and improvements within the City of Vancouver are, nevertheless, subject to rates levied by the Municipal Finance Authority for the annual operating levy, and also to replenish the debt reserve fund, should it ever be drawn upon.

REPRESENTATION

The Province of B.C. is divided into twenty-seven regional districts, each of which is governed by a regional board consisting of representatives of its member municipalities and unincorporated areas. The MFA is comprised of 35 members who represent these districts.

A complete listing of members and trustees and a description of how they are selected is provided on page 7.

FUNDING

When the MFA's Clients wish to finance capital projects, Ministry-approved requests are presented to the MFA and approved by its members. Subject to market and economic conditions, the MFA's board of trustees then may authorize the issue and sale of securities sufficient to meet aggregate Client requests.

Proceeds from the sale of these securities is not to exceed the amount authorized. The board of trustees also determines the rates, terms and conditions, including the markets and currencies, for the sale of these securities.

The MFA has the power to provide for the creation, management and application of sinking funds, or other means of securing the repayment of its securities, including calling for their early redemption.

A separate sinking fund account is maintained for each securities issue. Monies in excess of the current needs of a sinking fund, or which cannot be immediately applied toward repaying the debt, may be invested in:

a) securities of the government of Canada or a province of Canada, or
b) securities fully guaranteed by the government of Canada or by a province of Canada, or
c) securities of a municipality or regional district in B.C. or another province of Canada, maturing not later than the securities for which the sinking fund was created, or
d) investments guaranteed by a Canadian chartered bank, or
e) deposits in or securities of a credit union incorporated under the British Columbia Credit Union Act, or
f) securities of the MFA maturing not later than the securities for which the sinking fund was created.

How we safeguard investors

FINANCIAL PROTECTION

In B.C., the combined credit of all the regional districts and their member municipalities, the utilities, TransLink and regional hospital districts – which together have essentially all the taxable land and improvements in the province – stands behind the MFA's obligations.

In addition, the MFA has established a debt reserve fund. Each Client must contribute to this fund for securities issues in which they participate that have a term of five years or more. The contribution is equal to one-half the Client's average annual principal and interest instalment. This amount is payable to the MFA at the time of issue, either in full or in an amount equal to one percent of the principal amount borrowed. (TransLink contributes two percent.) The balance is secured by a non-interest bearing demand note of the regional district or regional hospital district issued to the MFA.

Monies paid into the debt reserve fund, and interest that the fund earns, are obligations of the MFA to its Clients and must be refunded to them when final loan instalments have been made. However, where a municipality, utility, or TransLink has discharged its debt obligation to a regional district, the MFA may, during the term of the issue, repay to the regional district a portion of that obligation. This repayment will be for the credit of the municipality, utility, or TransLink.

If, at any time, the MFA lacks sufficient funds to meet principal, interest or sinking fund payments due on its obligations, it must utilize the debt reserve fund. All or any part of this fund is available to satisfy MFA obligations, regardless of the sources of the money in the fund. In the event that payments are made from the debt reserve fund, the MFA will recover such payments from the regional districts and regional hospital districts involved to restore the debt reserve fund.

If the Trustees are of the opinion that payments made from the debt reserve fund will not be recovered within a reasonable period, they will levy upon all taxable land and improvements in the province a tax sufficient to restore the fund. It is mandatory for the Trustees to levy such a tax when the balance in the debt reserve fund is less than 50 percent of what the balance would have been had no such payments been made. The defaulting Client is not relieved of their unpaid balance owing and is obligated to reimburse the other MFA Clients that covered the default.

The Trustees power to impose taxes does not require the permission or approval of any other governmental authority. Pending the receipt of such taxes, the Authority may borrow an equivalent amount to meet its obligations.

The provincial government has guaranteed that the debt reserve fund will be maintained in accordance with the Municipal Finance Authority Act. The Inspector of Municipalities may inspect the fund from time to time and issue a certificate that it has been maintained at the proper level.

Monies in the debt reserve fund may be invested in:

a) securities of the government of Canada or a province of Canada, or
b) securities fully guaranteed by the government of Canada or a province of Canada, or
c) deposits in or investments guaranteed by a Canadian chartered bank, or
d) deposits in or securities of a credit union incorporated under the British Columbia Credit Union Act.

These investments must mature or be callable within five years and at least 25 percent of the fund must be callable within 90 days.

LEGISLATIVE PROTECTION

Clients who finance through the MFA must obtain the same provincial approvals as are required if they were issuing their own securities. In this way, all the safeguards imposed by the Provincial Legislature on incurring Clients' indebtedness are retained. These safeguards require that the Inspector of Municipalities or the Ministry of Health approve the debt and user charges, if any, and other taxes to service the debt. In addition, sewer and water projects require a certificate of self-liquidation from the Inspector of Municipalities.

Limitations on the borrowing power of a Client for each borrowing function (i.e. sewer, water, roads, etc.) may be specified in its letters patent. The total indebtedness of a municipality is limited to a percentage of the assessed value of the municipality's taxable land and improvements, and the value of the utility systems and other municipal enterprises for which the municipality holds a provincial certificate of self-liquidation.

How we serve our Clients

The Municipal Finance Authority was established because it made economic sense for individual municipalities and regional districts to borrow together as a group and to guarantee each other's credit. By acting together we are able to provide low interest rate financing for communities' capital programs and offer other innovative, flexible financial services.

POOLED INVESTMENT PROGRAM

ORGANIZATION

The Municipal Finance Authority Act was amended in 1988 authorizing the MFA to provide short-term investment opportunities for regional districts and municipalities in B.C. In 1992, the Act was further amended to extend the investment program to certain other public institutions in B.C.

The amendments resulted in the establishment and operation of three pooled investment funds. Two funds commenced operations in May, 1989 and a third in 1994.

PARTICIPATION

Participation in the Pooled Investment Program by public institutions is voluntary.

INVESTMENT ACTIVITIES

The investment activities of the funds are governed by the Municipal Finance Authority Act and a charter of investment policies, objectives and guidelines.

INTERIM FINANCING PROGRAM

ORGANIZATION

The Interim Financing Program commenced operations in December, 1990 after amendments were made to the Municipal Finance Authority Act to enable the MFA to offer interim financing to regional districts and municipalities. In

1992, the Act was further amended to include certain other public institutions in B.C.

PARTICIPATION

Participation in the Interim Financing Program by public institutions is voluntary.

PURPOSES FOR WHICH INTERIM FINANCING MAY BE PROVIDED

The Authority may provide financing for one or more of the following purposes:

a) temporary financing of capital projects
b) short-term capital borrowing up to 5 years
c) revenue anticipation borrowing
d) temporary financing to meet current operating expenditures

POOLED LEASING PROGRAM

ORGANIZATION

In 1995, the Municipal Finance Authority started its Pooled Leasing Program, funded with the same line of credit as the Interim Financing Program. The Authority is authorized to finance short-term debt for capital expenditures, including leasing.

PURPOSES FOR WHICH LEASING MAY BE PROVIDED

All commonly leased assets from office equipment to rolling stock are eligible under the program.

PARTICIPATION

Participation in the program is voluntary. The program is now available to colleges and universities, and may also soon be made available to other public bodies.

Auditors' Report

To the Members of the Municipal Finance Authority of British Columbia

We have audited the balance sheets of the Debt Fund, Debt Reserve Fund and Operating Fund (collectively, the "Capital Financing Funds") of the Municipal Finance Authority of British Columbia (the "Authority") and the combined balance sheet of these Funds as at December 31, 2002 and 2001, the statements of revenue, expenditure and surplus and cash flows of each of these Funds and the combined statements of revenue, expenditure and surplus and cash flows of these Funds for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Capital Financing Funds of the Authority as at December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS

Victoria, British Columbia, Canada
January 31, 2003

Balance Sheets

DECEMBER 31, 2002 AND 2001

THOUSANDS OF DOLLARS

	COMBINED		DEBT FUND	
	2002	2001	**2002**	2001
ASSETS				
Loans to Clients (Note 2) (Schedule page F27)	$ **2,935,516**	2,832,474	**2,935,516**	2,832,474
Investments, net of holdings of the Authority (Note 3)	**1,140,930**	1,139,714	**1,073,467**	1,089,784
Investments in sinking funds (Note 4)	**3,265**	10,265	**3,265**	10,265
Sinking fund assets in excess of related debt (Note 4)	**15,601**	26,780	**15,601**	26,780
Accrued interest and other receivables	**78,412**	78,950	**78,017**	78,260
Demand notes receivable from Clients, without interest	**172,508**	177,403	–	–
Unamortized issue, discount, refunding and exchange costs	**35,749**	35,721	**35,749**	35,721
Cash and cash equivalents	**8,227**	7,017	**5,133**	5,111
Capital assets (Note 5)	**854**	879	–	–
Due from Debt Fund	–	–	–	–
Due from Operating Fund	–	–	–	–
	$ **4,391,062**	4,309,203	**4,146,748**	4,078,395
LIABILITIES, EQUITY AND SURPLUS				
Liabilities:				
Long-term debt (Note 6) (Schedule page F22)	$ **3,580,977**	3,385,891	**3,593,232**	3,415,928
Due to Clients (Note 7)	**288,707**	258,185	**35,701**	–
Accounts payable and accrued interest payable (Note 8)	**44,286**	53,371	**43,936**	53,043
Due to interim financing and leasing funds	**59,999**	160,174	**59,999**	160,174
Due to Operating Fund	–	–	**25**	42
Due to Debt Reserve Fund	–	–	–	–
Total liabilities	**3,973,969**	3,857,621	**3,732,893**	3,629,187
Equity in capital assets	**854**	879	–	–
Appropriated Surplus	**975**	549	–	–
Surplus (Note 1b)	**415,264**	450,154	**413,855**	449,208
	$ **4,391,062**	4,309,203	**4,146,748**	4,078,395

SECRETARY-TREASURER

DEBT RESERVE FUND		OPERATING FUND	
2002	2001	**2002**	2001
–	–	–	–
79,718	79,967	–	–
–	–	–	–
–	–	–	–
188	394	**207**	296
172,508	177,403	–	–
–	–	–	–
589	417	**2,505**	1,489
–	–	**854**	879
–	–	**25**	42
6	6	–	–
253,009	258,187	**3,591**	2,706
–	–	–	–
253,006	258,185	–	–
3	2	**347**	326
–	–	–	–
–	–	–	–
–	–	**6**	6
253,009	258,187	**353**	332
–	–	**854**	879
–	–	**975**	549
–	–	**1,409**	946
253,009	258,187	**3,591**	2,706

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Statements of Revenue, Expenditure and Surplus

YEARS ENDED DECEMBER 31, 2002 AND 2001

THOUSANDS OF DOLLARS

	COMBINED		DEBT FUND	
	2002	2001	**2002**	2001
REVENUE				
Interest from loans to Clients	$ **252,381**	248,127	**252,381**	248,127
Investment income	**75,631**	89,121	**70,555**	83,501
Management fees	**1,054**	941	–	–
Recoveries from new issues	**429**	429	–	–
Operating levy	**103**	101	–	–
Total revenue	**329,598**	338,719	**322,936**	331,628
EXPENDITURE				
Interest on long-term debt	**237,522**	241,139	**237,522**	241,139
Amortization of issue, discount, refunding and exchange costs	**4,747**	5,088	**4,747**	5,088
Administrative	**1,500**	1,549	–	–
Management fees	–	–	**1,738**	1,031
Allocation of net earnings to Clients	**5,890**	5,410	**960**	–
Debt management and marketing	**182**	219	–	–
Total expenditure	**249,841**	253,405	**244,967**	247,258
Excess of revenue over expenditure for the year	**79,757**	85,314	**77,969**	84,370
Surplus at beginning of the year	**450,154**	480,894	**449,208**	479,993
Allocations to Clients (Note 9)	(**113,322**)	(115,155)	(**113,322**)	(115,155)
Appropriation of surplus	(**975**)	(549)	–	–
Dividends paid	(**350**)	(350)	–	–
Surplus at the end of the year	$ **415,264**	450,154	**413,855**	449,208

DEBT RESERVE FUND		OPERATING FUND	
2002	2001	**2002**	2001
–	–	–	–
5,015	5,562	**61**	58
–	–	**2,870**	2,055
–	–	**429**	429
–	–	**103**	101
5,015	5,562	**3,463**	2,643
–	–	–	–
–	–	–	–
–	–	**1,500**	1,549
78	83	–	–
4,930	5,410	–	–
7	69	**175**	150
5,015	5,562	**1,675**	1,699
–	–	**1,788**	944
–	–	**946**	901
–	–	–	–
–	–	(**975**)	(549)
–	–	(**350**)	(350)
–	–	**1,409**	946

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Statements of Cash Flows

YEARS ENDED DECEMBER 31, 2002 AND 2001

THOUSANDS OF DOLLARS

	COMBINED		DEBT FUND	
	2002	2001	**2002**	2001
OPERATING ACTIVITIES				
Excess of revenue over expenditure for the year	$ **79,757**	85,314	**77,969**	84,370
Non-cash items:				
Gain on disposals of investments	(**5,608**)	(7,934)	(**4,503**)	(6,655)
Accretion of discounts on investments	(**28,674**)	(29,364)	(**27,623**)	(28,610)
Amortization of issue, discount, refunding and exchange costs	**4,747**	5,088	**4,747**	5,088
Allocations of net earnings to Clients	**5,890**	5,410	**960**	–
Depreciation on building	**25**	25	–	–
Changes in accrued interest and other receivables	**653**	21,416	**358**	20,809
Changes in accounts payable and accrued interest payable	(**9,701**)	(19,611)	(**9,174**)	(9,508)
Cash provided by (applied to) operating activities	**47,089**	60,344	**42,734**	65,494
INVESTING ACTIVITIES				
Investments sold or matured	**1,214,599**	1,957,760	**795,828**	1,156,610
Investments purchased	(**1,144,912**)	(1,992,483)	(**728,546**)	(1,211,250)
Cash provided by (applied to) investing activities	**69,687**	(34,723)	**67,282**	(54,640)
FINANCING ACTIVITIES				
New debt issued	**405,133**	372,300	**405,133**	372,300
Sewer and water grant contribution from Province of BC	**40,731**	–	**40,731**	–
Loan repayments from Clients	**276,463**	248,542	**276,463**	248,542
New loans to Clients	(**380,292**)	(373,043)	(**380,292**)	(373,043)
Debt retired	(**227,576**)	(230,591)	(**227,576**)	(230,591)
Issue, discount, refunding and exchange costs	(**4,960**)	2,054	(**4,960**)	2,054
Loans from interim financing and leasing funds	(**100,200**)	84,835	(**100,175**)	84,860
Changes in interfund balances	–	–	(**17**)	3
Contributions from Clients for new loans	**5,953**	5,130	**450**	–
Contributions and earnings thereon refunded to Clients	(**10,717**)	(19,467)	–	–
Allocations of surplus payments to Clients	(**113,322**)	(115,155)	(**113,322**)	(115,155)
Allocations of sewer and water grant payments to Clients	(**6,429**)	(6,429)	–	–
Dividends paid	(**350**)	(350)	–	–
Cash applied to financing activities	(**115,566**)	(25,745)	(**109,994**)	(11,030)
Increase (decrease) in cash for the year	**1,210**	(124)	**22**	(176)
Cash and cash equivalents, beginning of the year	**7,017**	7,141	**5,111**	5,287
Cash and cash equivalents, end of the year	$ **8,227**	7,017	**5,133**	5,111

DEBT RESERVE FUND		OPERATING FUND	
2002	2001	**2002**	2001
–	–	**1,788**	944
(1,105)	(1,279)	–	–
(1,051)	(754)	–	–
–	–	–	–
4,930	5,410	–	–
–	–	**25**	25
206	685	**89**	(78)
1	(26)	**(528)**	(10,077)
2,981	4,036	**1,374**	(9,186)
418,771	790,648	–	10,502
(416,366)	(780,814)	–	(419)
2,405	9,834	–	10,083
–	–	–	–
–	–	–	–
–	–	–	–
–	–	–	–
–	–	–	–
–	–	–	–
–	–	**(25)**	(25)
–	(6)	**17**	3
5,503	5,130	–	–
(10,717)	(19,467)	–	–
–	–	–	–
–	–	–	–
–	–	**(350)**	(350)
(5,214)	(14,343)	**(358)**	(372)
172	(473)	**1,016**	525
417	890	**1,489**	964
589	417	**2,505**	1,489

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

YEARS ENDED DECEMBER 31, 2002 AND 2001

Significant Accounting Policies

1a. Basis of presentation

The Municipal Finance Authority of British Columbia (the "Authority"), operates under the Municipal Finance Authority Act (the "Act") as the central borrowing agency for the financing of capital requirements of regional districts and their member municipalities, regional hospital districts and special purpose other municipal bodies (collectively the "Clients"). The Authority issues its own securities and lends the proceeds to its Clients on whose request the financing is undertaken. Obligations of the Authority are not obligations of the Province of British Columbia and are not guaranteed, directly or indirectly, by the Province. The Authority may annually impose rates not exceeding prescribed amounts on all taxable land and improvements in the Province to meet the annual operating budget. Additional rates will be levied if the trustees are of the opinion that debt payments may not be recovered within a reasonable time under loan agreements with its Clients.

The accompanying financial statements reflect the capital financing and general operations of the Authority. Other activities, including the maintenance of pooled investment funds and the Interim Financing and Leasing Funds are reported separately by the Authority.

The financial statements of the Authority have been prepared by management in accordance with Canadian generally accepted accounting principles. The Authority maintains its accounts according to the principles of fund accounting by which financial resources are segregated for specific activities or to attain certain objectives. Three funds are maintained within the Capital Financing division.

A brief description of each of the capital financing funds and its purpose is as follows:

OPERATING FUND

The Act provides for the establishment of an Operating Fund to meet the annual operating budget. In addition to the administration of the Capital Financing activities, the Operating Fund receives management fees from the Pooled Investment Fund and the Interim Financing and Leasing Funds and pays the cost of their operations.

Market development activities are reported in the Operating Fund under the caption of Debt management and marketing on the Statements of Revenue, Expenditure and Surplus. Previously these activities where disclosed as a separate fund and have been reclassified within the Operating Fund in the current year.

DEBT FUND

The Authority's financing activities on behalf of its Clients are recorded within the Debt Fund. As well the Debt Fund is a repository for repayments from the Clients under their loan agreements in advance of the Authority's requirements on its related indebtedness. These repository activities were previously reported as a separate fund and have been reclassified within the Debt Fund in the current year.

DEBT RESERVE FUND

Under the Act, the Authority must establish a Debt Reserve Fund. Each Client sharing in the proceeds of a securities issue is required to pay into the Debt Reserve Fund an amount equal to one-half the average annual installment of principal and interest in respect of its own borrowing together with one-half the average annual installment of principal and interest as set out in the agreements entered into with the regional district by member municipalities, utilities and TransLink in respect of their borrowings; such amount is payable either in full or in an amount equal to 1% (2% for TransLink) of the principal amount borrowed with the balance secured by a non-interest bearing demand note.

If, at any time, the Authority does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, the payments or sinking fund contributions shall be made from the Debt Reserve Fund.

In addition, the financial statements have been prepared within the framework of the following significant accounting policies:

1b. Surplus

The surplus balance of the Debt Fund represent undistributed earnings on investments. The undistributed earnings in excess of budgeted actuarial earnings are due to Clients once the debt is retired. The amount of surplus reallocated to Clients is disclosed in the statements of revenue, expenditure and surplus (see note 9).

The Authority may appropriate operating surpluses for future operating expenditures.

1c) Revenue Recognition

The annual operating levy is recognized as revenue in the Operating Fund when the rates have been set by the Authority in March of each year. It is collected on behalf of the Authority by the municipalities in the Province and the Provincial Surveyor of Taxes and is payable to the Authority on August 1 each year.

1d) Amortization of issue, discount, refunding and exchange costs

Issue, discount, refunding and exchange costs are amortized on a straight-line basis over the average lives of the securities issues to which they relate.

1e) Foreign currency transactions

The loans receivable and long-term debt payable, denominated in U.S. dollars are translated to Canadian dollars, at rates in effect at the balance sheet date. Exchange gains and losses on translation are included in income.

1f) Investments

The investment purchasing and trading policy of the Authority is to match the maturity of its investments with the applicable obligation dates of its debt.

Securities purchased with the intention of holding to maturity or until market conditions, such as a change in interest rates, provide a better investment opportunity are recorded at cost, adjusted for amortization of premiums and accretion of discounts on an effective yield basis. Any gains and losses on the disposal of investment securities are recorded in the Statements of Revenue, Expenditure and Surplus in the year of disposal.

Securities may be purchased for investment return and may be either shorter or longer term. Such securities are also recorded at cost, adjusted for amortization of premiums and accretion of discounts on an effective yield basis. When the market value of trading securities declines below carrying value and such decline in value is considered other than temporary, these securities are written down to market. Write-downs to market and any gains and losses on the sale of these securities are recorded in the Statements of Revenue, Expenditure and Surplus in the year they occur.

1g) Sinking funds

The sinking fund investments are unique. They relate to one debenture issue from 1978 that under the terms of issuance the Authority had a legal obligation to put aside a stipulated amount of monies each year, which would grow to cover the debt at maturity. All subsequent debt issues do not have this stipulation.

Under the Act, obligations of the Authority purchased for a sinking fund account together with interest, premium, or exchange derived from them shall be held to the credit of that sinking fund account but may be resold. However, securities purchased in anticipation of mandatory annual redemptions for sinking fund purposes are cancelled immediately in accordance with the terms of such issues.

1h) Capital assets

Capital assets are stated at cost. Amortization of the building is provided on a straight-line basis over 40 years.

1i) Financial Instruments

The Authority will enter into certain derivative financial instruments upon request of individual Clients, principally interest rate swap contracts, in consideration of the re-financing risk regarding exposure to future interest rate fluctuations. The financial impact of these contracts are not recognized in the financial statements on inception but are recognized at execution date of the contracts (i.e. the refinancing date) as adjustments to Clients future re-lending rate. These adjustments to the re-lending rate become the responsibility of the individual Client involved in the interest rate swap contract.

1j) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in the preparation of the financial statements include the assumption of a 5% expected earnings rate on sinking funds, which makes up a portion of the asset "Loans to Clients." (See note 2.)

1k) Comparative figures

Certain 2001 comparative figures have been reclassified to conform with the financial statement presentation for the current year.

2. Loans to Clients

Under the Act, each Client sharing in the proceeds of a securities issue must pay over to the Authority such sums as are required to discharge its obligations to the Authority in respect to such securities issue. If the scheduled payments provided for under the loan agreement are not sufficient to meet the Authority's obligations in respect of that securities issue, the deficiency is a liability of the member to the Authority.

The aggregate principal payments recoverable from the Clients in each of the next five years (excluding principal payments suspended as outlined below) are as follows:

Thousands of dollars	**2002**	2001
2002	$ –	159,171
2003	**164,139**	151,206
2004	**149,435**	136,568
2005	**146,871**	132,800
2006	**143,430**	129,051
2007	**140,436**	

When the Authority, under the Section 12 of the Act and with the approval of the Inspector of Municipalities, has determined that the amount of the assets in the sinking fund and/or the Debt Fund together with the anticipated earnings for that fund is greater than the amount which will be required to repay the debt or discharge the obligation and has declared that there is an anticipated surplus in the fund of a specified amount, the scheduled future payments of both principal and interest from the Clients under the related loan agreements are suspended.

Loans to Clients include $6,406,914 (2001-$8,345,633), which are denominated in U.S. dollars. The difference between loans receivable of U.S. $6,406,914 (2001–$8,345,633) and loans payable in U.S. dollars of $456,000 (2001–$872,000) results from various refinancing of U.S. denominated debt into Canadian dollars. The loans to Clients under these refinancing have remained in U.S. dollars.

For financial statement presentation, both the loans receivable from the Clients in U.S. dollars, and the U.S. denominated debt have been converted to Canadian Dollars at rates in effect at the balance sheet date.

3. Investments

Investments consist of securities of:

Thousands of dollars	**Par Value**	**2002 Book Value**	2001 Book Value
DEBT FUND			
Government of Canada, direct or guaranteed	$ **212,836**	**180,390**	204,900
Provincial governments, direct or guaranteed	**587,718**	**448,799**	339,385
Chartered banks, direct or guaranteed	**454,784**	**429,131**	449,418
Credit Unions in the Province	–	–	41,645
Regional and municipal governments	**2,894**	**2,892**	24,399
	1,258,232	**1,061,212**	1,059,747
The Authority	**11,944**	**12,255**	30,037
	$**1,270,176**	**1,073,467**	1,089,784
DEBT RESERVE FUND			
Government of Canada, direct or guaranteed	$ **11,620**	**11,946**	72,247
Provincial governments, direct or guaranteed	**57,718**	**27,301**	3,324
Chartered banks, direct or guaranteed	**33,541**	**33,144**	733
Credit Unions in the Province	**3,409**	**3,326**	3,072
Regional and municipal governments	**4,030**	**4,001**	591
	$ **110,318**	**79,718**	79,967
Total, all funds	$**1,380,494**	**1,153,185**	1,169,751
Less investments held by the Authority	**11,944**	**12,255**	30,037
Combined Total	$**1,368,550**	**1,140,930**	1,139,714

The Authority may invest monies in its own securities maturing not later than the securities for which the sinking fund or Debt Fund account was created.

Investments in Municipal Finance Authority of B.C. Debentures have been offset against the related debt in the combined statements (see "Debt Fund – Schedule of Long-Term Debt", F22.)

4. Investments in sinking funds

The annual deposits to the sinking funds for securities issues payable in Canadian dollars are based on an expected earnings rate of 5% per annum, capitalized yearly.

The assets and the surpluses of the sinking funds are as follows:

Thousands of dollars	Par Value	2002 Book Value	2001 Book Value
SECURITIES			
Government of Canada, direct or guaranteed	$ 3,252	3,223	691
Provincial governments, direct or guaranteed	3,752	3,708	6,895
Chartered banks, direct or guaranteed	9,235	8,788	26,088
	16,239	15,719	33,674
The Authority	2,204	2,258	2,958
	$ 18,443	17,977	36,632
Cash		332	266
Accrued interest and other		557	147
Total Assets		$ 18,866	37,045
Presented on Balance Sheet as:			
Investments in sinking funds:			
Accumulated actuarial requirements for retirement of related sinking fund debt		$ 2,995	9,406
Excess of assets above actuarial requirements (i)		270	859
		3,265	10,265
Sinking fund assets in excess of related debt (ii)		15,601	26,780
		$ 18,866	37,045

(i) These assets remain in the sinking fund to cover the applicable debt.

(ii) This excess will flow back to the Authority's Clients (See Note 9).

5. Capital assets

Capital assets represent the net book value of the land and building out of which the Authority operates. The land and building, purchased at an original cost of $998,000 is reflected in the Operating Fund net of accumulated amortization of $144,000 (2001 – $119,000) on the building.

6. Long-term debt

The aggregate long-term debt maturities and sinking fund requirements in each of the next five years are as follows (including provision for early calls by the Authority and redemptions at the option of the bondholder):

Thousands of dollars	2002	2001
2002	$ –	240,291
2003	302,451	295,450
2004	198,041	171,541
2005	446,308	439,308
2006	283,391	276,318
2007	279,752	

Since the terms of maturities of certain of the Authority's securities issues and the requested loan term by its Clients do not coincide, refinancing of a portion of such securities issues will be required in future years. Refinancings over the next five years and the average interest rates on the refunded amounts, are as follows:

Thousands of dollars	Refinancing	Existing Interest Rate %
2003	$ 48,700	8.09
2004	43,500	8.50
2005	148,600	8.04
2006	45,300	7.96
2006	76,100	6.22

7. Due to Clients

Included in amounts Due to Clients is $253,006,000 (2001 – 258,185,000) which will be repaid to Clients when they have made the final payment under their respective loan agreements. However, where a municipality has discharged its obligation to a regional district with respect to a securities issue, the Authority may repay to the regional district for the credit of the municipality a portion of the money which is an obligation to the regional district and the money so paid shall be applied to reduce that obligation.

If, at any time, the Authority does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, the payments or sinking fund contributions must be made from the Debt Reserve Fund.

If the Trustees of the Authority are of the opinion that the payments made from the Debt Reserve Fund may not be recovered

under the terms of the loan agreements within a reasonable time, they may levy or impose upon substantially all taxable land and improvements in the Province rates sufficient to maintain the Debt Reserve Fund at a level not exceeding the amount which would have been in the fund had no such payments been made. Further, the Board of Trustees must impose such rates when the balance in the fund is less than fifty percent of the amount that would have been in the fund had no such payments been made.

Included in amounts due to Clients are sewer and water facilities assistant grant monies payable to regional districts and municipalities. Prior to March 2002 certain regional districts and municipalities with sewer and/or water facility loans outstanding would receive semi-annual grant funding from the Province of British Columbia to offset a portion of annual debt servicing costs incurred. In March 2002 the Authority received a lump sum payment of $40,731,000 from the Province for application towards these loans outstanding. The Authority is responsible to distribute these payments to Clients on a semi annual basis as related principal and interest payments are received from Clients.

The Authority has estimated that total distributions of these funds out to the expiry dates of the applicable sewer and/or water loans to be $37,246,000. The estimated payments over the next 5 years are as follows:

Thousands of dollars	**Estimated Payment Obligations**
2003	$ 11,770
2004	7,732
2005	6,117
2006	4,960
2007	2,708
Thereafter	3,959

As at year end the Authority has recognized a liability with a present value of $34,302,000 and has invested the corresponding funds in securities to mature at the required value of $37,246,000.

8. Accounts payable and accrued interest payable

Accounts payable and accrued interest payable includes the difference between the unscheduled early payout (present valued) by various Clients and the book value of their liabilities to the Authority. These early payments by Clients are based on the cost to the Authority of pur-chasing investments that will exactly match the principal and interest payments the Client would have otherwise made (based on the present value of the yield curve at the time of the early payment).

9. Allocations to Clients

This amount is the total of surpluses earned (excess earnings) by the investments relating to specific debentures issues that have matured and were distributed back to the Clients for which the financing was undertaken. Allocations of net earnings to Clients, which applies to the Debt Reserve Fund is shown separately. During the year, the following surplus was allocated:

Thousands of dollars	**2002**	2001
Cash surplus repayments	$ **24,967**	38,776
Future invoice payments forgiven	**88,355**	76,379
	$ **113,322**	115,155

10. Supplemental cash flow information

During the year the Authority received cash payments of $255,905,832 (2001 – $255,765,500) as interest payments from its Clients and $65,638,713 (2001 – $92,222,500) as interest on investments.

During the year the Authority made payments of $242,496,464 (2001 – $245,850,900) as interest payments to bondholders and $3,975,561 (2001 – $4,629,100) as interest payments on loans held by the Interim Financing program.

The amounts shown on the Statements of Revenue, Expenditure and Surplus are recorded on an accrual basis and may differ from the information presented above on a cash basis.

11. Financial instruments – interest rate risk

Upon maturity of certain debt issues the Authority may refinance any remaining loans receivable balances associated with those debt issues through the Authority's Interim Financing program's revolving credit facility. As at December 31, 2002 the authority had $59,999,177 (2001 – $64,765,765) of these loans outstanding subject to floating interest rates. As at December 31, 2002 this floating rate was 3.225% (2001 – 2.42%) while the related relending of these funds to its Clients ranged from 5.37% to 6.50% (2001 – 5.49% to 6.50%). During the year interest in the amount of $1,546,857 (2001– $3,562,202) was paid to the Interim Financing program on these loans.

The Authority invests in securities with proceeds from its Interim Financing program. As at December 31, 2002 the authority had no loans outstanding (2001 – $95,408,468 at a floating rate of 2.42% with investment yields ranging from 5.01% to 6.24%). During the year interest in the amount of $1,347,388 (2001 – $1,065,579) was paid to the Interim Financing Program on such loans.

12. Financial instruments – derivatives

The Authority has entered into certain financial agreements to hedge investment yields with third party financial institutions whereby the Authority will make periodic principal payments in exchange for certain future cash repayments. As at December 31, 2002 the future value of these contracts, due to the Authority, is $390,659,426 (2001 – $391,214,231) while related principal payments by the Authority towards those agreements is $141,606,416 (2001 – $112,415,436).

13. Financial instruments – fair value

The carrying values of accrued interest and other receivables and accounts payable and accrued interest payable approximate their fair value due to the relatively short periods to maturity of the instruments.

The fair market values of other financial assets and liabilities included in the combined balance sheet at carrying amount are as follows:

	2002		2001	
Thousands of dollars	**Carrying Amount**	**Fair Market Value**	Carrying Amount	Fair Market Value
Investments				
Debt Fund	**$1,073,467**	**1,128,711**	1,089,784	1,103,036
Debt Reserve Fund	**79,718**	**80,555**	79,967	80,562
Sinking Funds	**17,977**	**18,864**	36,632	35,087
Loans to Clients	**2,935,516**	**3,140,127**	2,832,474	2,973,421
Long Term Debt	**3,593,232**	**3,893,067**	3,415,928	3,627,601

Fair values were estimated as follows:

- Investments - based on quoted market values.
- Long-term debt - prices based on yield to maturity on first call date using appropriate spreads over Canada Bonds as a benchmark.
- Loans to Clients - values estimated using prices equivalent to the related long-term debt for each issue.

Debt Fund – Schedule of Long-Term Debt

DECEMBER 31, 2002 AND 2001

THOUSANDS OF DOLLARS

ISSUE/SERIES	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT	ORIGINAL AMOUNT
PAYABLE IN CANADIAN DOLLARS:				
A23	1978	November 15, 2003	10.000	3,265
33	1983	June 15, 2003	12.375	63,300
40/CC	1986	October 23, 2003 / 2006	10.125	26,000
50/CL	1991	May 8, 2006	10.250	46,000
53/CN	1992	May 13, 2002	9.625	55,000
54/CO	1993	January 12, 2003	8.300	57,300
55	1993	May 12, 2003	8.000	15,000
55CP	1993	May 12, 2013	8.750	50,000
56/EC	1993	November 19, 2003	7.250	98,000
58/ED	1994	May 10, 2004	8.500	91,000
60/CQ	1995	April 12, 2005	8.500	47,000
61/CR	1995	December 1, 2005	7.750	350,000
62	1995	December 1, 2005	6.200	134
64/CS	1996/2001	September 25, 2006	7.250	121,000
65/CT	1997	April 24, 2007	6.750	125,000
66/CU	1997	November 5, 2003 – 2006	5.000 - 5.625	75,000
66/CU	1997	November 5, 2007	5.625	60,000
68	1998	March 24, 2003 - 2007	5.250 - 5.500	86,642
68/CV	1998	March 24, 2008	5.500	336,000
70/CW	1999/2000	June 1, 2009	5.250	646,000
74/CX	2001	June 1, 2011	5.900	491,800
76/CY	2001	November 8, 2004	3.390	19,500
77	2002	June 1, 2003 - 2007	3.500 - 5.625	35,000
78CZ	2002	December 3, 2012	5.250	210,000
800	1999	September 1, 2004	4.750	122
801	2001	September 1, 2006	5.410	73
802	2002	February 16, 2007	4.630	60
			Carried Forward	3,108,196

OUTSTANDING	SINKING FUNDS	2002 LONG-TERM DEBT, NET	2001 LONG-TERM DEBT, NET	REFERENCES
PAYABLE IN CANADIAN DOLLARS:				
3,265	**3,265**	–	–	(1) (2)
9,970	–	**9,970**	18,660	(3)
26,000	–	**26,000**	26,000	(4)
45,980	–	**45,980**	45,980	(1)
–	–	–	55,000	(1)
57,300	–	**57,300**	57,300	(1)
2,000	–	**2,000**	3,875	(1)
50,000	–	**50,000**	50,000	(1)
98,000	–	**98,000**	98,000	(1)
91,000	–	**91,000**	91,000	(1)
45,020	–	**45,020**	45,020	(1)
350,000	–	**350,000**	350,000	(1)
14	–	**14**	14	(5)
121,000	–	**121,000**	121,000	(1)
125,000	–	**125,000**	125,000	(1)
37,456	–	**37,456**	45,682	(1)
60,000	–	**60,000**	60,000	(1)
58,281	–	**58,281**	68,222	(1)
336,000	–	**336,000**	336,000	(1)
646,000	–	**646,000**	646,000	(1)
491,800	–	**491,800**	331,800	(1)
19,500	–	**19,500**	19,500	(1)
35,000	–	**35,000**	–	(1)
210,000	–	**210,000**	–	(1)
122	–	**122**	122	(6)
73	–	**73**	–	(7)
60	–	**60**	–	(8)
2,918,841	**3,265**	**2,915,576**	2,594,175	

CONTINUED ON NEXT PAGE

Debt Fund – Schedule of Long-Term Debt

DECEMBER 31, 2002 AND 2001

THOUSANDS OF DOLLARS

ISSUE/SERIES	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT	ORIGINAL AMOUNT
			Brought Forward	$3,108,196
PAYABLE IN CANADIAN DOLLARS:				
505 to 628	1999	January 4, 2003 - November 30, 2015	5.250 - 17.510	297,929
702 to 715	1999	February 5, 2003 - July 21, 2010	2.775 - 9.610	418,830
902	1996	January 9, 2002	9.000	50,000
903	1996	January 9, 2012	9.500	33,000
906	1996	June 16, 2003	7.750	10,000
908	1996	December 22, 2003	7.000	10,000
909	1996	February 3, 2004	6.500	5,000
911	1996	January 9, 2002	9.000	14,000
912	1996	January 9, 2012	9.500	24,000
915	1996	June 16, 2003	7.750	5,000
917	1996	December 22, 2003	7.000	10,000
918	1996	February 3, 2004	6.500	5,000
919	1996	February 3, 2004	6.500	20,000
920	1996	June 21, 2004	9.000	8,000
922	1996	August 16, 2004	9.125	5,000
			Payable in Canadian Dollars:	4,023,955
PAYABLE IN UNITED STATES DOLLARS:				
22	1978	June 1, 2003	9.375	4,737
				$4,028,692
Add: Foreign Exchange on conversion of U.S. debt to Canadian dollars				
Total per Debt Fund				
Less amounts held as investments by the Authority				
Net debt due to bondholders				

OUTSTANDING	SINKING FUNDS	2002 LONG-TERM DEBT, NET	2001 LONG-TERM DEBT, NET	REFERENCES
2,918,841	**3,265**	**2,915,576**	2,594,175	
PAYABLE IN CANADIAN DOLLARS:				
247,869	–	**247,869**	272,619	(1) (9)
290,802	–	**290,802**	338,480	(1) (10)
–	–	-	50,000	(1) (11)
33,000	–	**33,000**	33,000	(1) (11)
10,000	–	**10,000**	10,000	(1) (11)
10,000	–	**10,000**	10,000	(1) (11)
5,000	–	**5,000**	5,000	(1) (11)
–	–	–	14,000	(1) (11)
24,000	–	**24,000**	24,000	(1) (11)
5,000	–	**5,000**	5,000	(1) (11)
10,000	–	**10,000**	10,000	(1) (11)
5,000	–	**5,000**	5,000	(1) (11)
20,000	–	**20,000**	20,000	(1) (11)
8,000	–	**8,000**	8,000	(1) (11)
5,000	–	**5,000**	5,000	(1) (11)
3,592,512	**3,265**	**3,589,247**	3,404,274	
456	–	**456**	872	(3)
3,592,968	**3,265**	**3,589,703**	3,405,146	
264		**264**	517	
3,593,232		**3,589,967**	3,405,663	
12,255				
3,580,977				

Debt Fund – References to Schedule of Long-Term Debt

DECEMBER 31, 2002

1 Non-callable prior to maturity.

2 The sinking fund has been calculated to provide for retirement of the issue at maturity.

3 Non-callable except for sinking fund purposes.

4 Callable on October 23, 2003 and thereafter at any time at 100%.

5 Five-year Community bonds at 6.20% due December 1, 2005.

6 Five-year Community bonds at 4.750% due September 1, 2004.

7 Five-year Community bonds at 5.410% due September 1, 2006.

8 Five-year Community bonds at 4.630% due February 16, 2007.

9 Debt issues, relating to the Regional Hospital Districts, transferred from Province of British Columbia, to MFA under a defeasance agreement dated March 31, 1999. The debt outstanding remains in the name of the Province. Debt comprised of 97 debenture issues averaging $2.555 million each. Individual issue detail is not shown.

10 Debt issues, relating to TransLink, transferred from Province of British Columbia, to MFA under a defeasance agreement dated March 31, 1999. The debt outstanding remains in the name of the Province. Debt comprised of 10 debenture issues averaging $29.080 million each. Individual issue detail is not shown.

11 Debenture issues transferred from Province of British Columbia, to MFA on April 1, 1996. The debt outstanding remains in the name of the Province.

Schedule of Loans to Clients 2002

UNAUDITED – OUTSTANDING AT DECEMBER 31, 2002

THOUSANDS OF DOLLARS (EXCEPT PER CAPITA)

	PRINCIPAL OUTSTANDING DEC. 31, 2001	2002 NEW LOANS ISSUED	2002 PRINCIPAL REPAID	PRINCIPAL OUTSTANDING DEC. 31, 2002	PER CAPITA
REGIONAL DISTRICTS					
Alberni-Clayoquot	$ 23,592	2,050	3,084	**22,558**	671
Bulkley-Nechako	7,356	1,098	1,293	**7,161**	157
Capital	240,037	71,931	23,826	**288,142**	856
Cariboo	44,572	2,427	5,785	**41,214**	560
Central Coast	380	–	17	**363**	83
Central Kootenay	28,760	2,246	1,928	**29,078**	469
Central Okanagan	130,374	7,393	8,424	**129,343**	835
Columbia Shuswap	26,198	3,660	1,269	**28,589**	533
Comox-Strathcona	101,715	1,684	6,587	**96,812**	911
Cowichan Valley	23,994	4,592	2,894	**25,692**	331
East Kootenay	44,678	1,236	9,121	**36,793**	578
Fraser-Fort George	67,601	10,452	6,920	**71,133**	665
Fraser Valley	115,186	–	14,384	**100,802**	413
Greater Vancouver	842,259	19,354	74,506	**787,107**	388
Kitimat-Stikine	15,119	4,912	1,077	**18,954**	403
Kootenay Boundary	15,179	3,833	1,262	**17,750**	525
Mount Waddington	4,304	2,282	361	**6,225**	411
Nanaimo	58,621	865	4,622	**54,864**	401
North Okanagan	58,949	29,917	5,565	**83,301**	1063
Northern Rockies	5,852	–	482	**5,370**	824
Okanagan-Similkameen	44,915	24	6,212	**38,727**	480
Peace River	39,651	7,779	6,455	**40,975**	673
Powell River	15,889	–	670	**15,219**	676
Skeena-Queen Charlotte	14,139	–	3,310	**10,829**	391
Squamish-Lillooet	22,948	5,550	1,628	**26,870**	724
Sunshine Coast	9,464	5,989	719	**14,734**	471
Thompson-Nicola	53,873	5,018	12,064	**46,827**	357
OTHER					
Greater Campbell River Water District	1,023	–	36	**987**	35
Greater Nanaimo Water District	6,972	–	1,138	**5,834**	43
E-COMM	127,896	16,000	9,941	**133,955**	58
Translink	637,845	170,000	60,883	**746,962**	368
	2,829,341	380,292	276,463	**2,933,170**	715
Foreign Exchange	3,133			**2,346**	
	$ 2,832,474			**2,935,516**	716

Ten Year Review – Combined Funds

THOUSANDS OF DOLLARS

	2002	2001	2000
ASSETS			
Loans to Clients	$ **2,935,516**	2,832,474	2,714,849
Investments, net of holdings of the Authority	**1,140,930**	1,139,714	1,059,689
Investments in sinking funds	**3,265**	10,265	10,265
Sinking fund assets in excess of related debt	**15,601**	26,780	25,727
Accrued interest and other receivables	**78,412**	78,950	94,044
Demand notes receivable from Clients, without interest	**172,508**	177,403	180,353
Unamortized issue, discounts, refunding and exchange costs	**35,749**	35,721	42,863
Cash and cash equivalents	**8,227**	7,017	7,141
Capital assets	**854**	879	904
Due from interim financing and leasing funds	–	–	–
Total assets	$ **4,391,062**	4,309,203	4,135,835
LIABILITIES, EQUITY AND SURPLUS			
Long-term debt	$ **3,580,977**	3,385,891	3,235,022
Due to Clients	**288,707**	258,185	270,062
Accounts payable and accrued interest payable	**44,286**	53,371	63,556
Due to interim financing and leasing funds	**59,999**	160,174	75,315
Due to Forest Renewal BC	–	–	10,082
Total liabilities	**3,973,969**	3,857,621	3,654,037
Equity in capital assets	**854**	879	904
Appropriated surplus	**975**	549	–
Surplus	**415,264**	450,154	480,894
Total liabilities, equity and surplus	$ **4,391,062**	4,309,203	4,135,835
REVENUE			
Interest from loans to Clients	$ **252,381**	248,127	255,920
Investment income	**75,631**	89,121	69,317
Management fees	**1,054**	941	702
Recoveries from new issues	**429**	429	429
Operating levy	**103**	101	100
Total revenue	**329,598**	338,719	326,468
EXPENDITURE			
Interest on long-term debt	**237,522**	241,139	251,761
Amortization of issue, discounts, refunding and exchange costs	**4,747**	5,088	7,764
Administrative	**1,500**	1,549	1,451
Debt management and marketing	**182**	219	267
Allocation of net earnings to Clients	**5,890**	5,410	3,404
Total expenditure	**249,841**	253,405	264,647
Excess of revenue over expenditure for the year	**79,757**	85,314	61,821
Surplus at beginning of the year	**450,154**	480,894	493,433
Surplus on debt issues from Province	–	–	–
Allocations to Clients	**(113,322)**	(115,155)	(74,110)
Appropriation of surplus	**(975)**	(549)	–
Dividends paid	**(350)**	(350)	(250)
Surplus at end of the year	$ **415,264**	450,154	480,894

1999	1998	1997	1996	1995	1994	1993
2,702,045	1,988,013	1,758,368	1,721,135	1,406,167	1,260,772	1,257,889
990,838	652,219	580,138	540,349	419,491	357,620	315,163
27,802	51,231	83,895	146,143	141,622	142,179	149,923
24,587	23,582	22,624	35,185	32,196	30,032	23,613
74,166	44,727	34,964	38,098	30,855	26,303	25,504
185,938	152,502	139,036	135,991	114,963	107,706	105,817
29,506	15,774	19,779	19,541	26,065	11,192	12,096
14,319	12,500	3,957	7,815	6,181	10,597	2,712
929	954	979	997	–	–	–
–	–	–	30	25	11	7
4,050,130	2,941,502	2,643,740	2,645,284	2,177,565	1,946,412	1,892,724
3,123,290	2,206,060	1,947,612	1,920,404	1,527,529	1,350,538	1,336,331
280,862	232,818	218,275	214,877	189,610	180,064	174,693
67,494	41,234	36,977	38,192	33,578	29,258	25,121
74,004	36,468	21,567	747	5,731	2,926	266
10,118	10,142	–	–	–	–	–
3,555,768	2,526,722	2,224,431	2,174,220	1,756,448	1,562,786	1,536,411
929	486	357	250	–	–	–
–	–	–	–	–	–	–
493,433	414,294	418,952	470,814	421,117	383,626	356,313
4,050,130	2,941,502	2,643,740	2,645,284	2,177,565	1,946,412	1,892,724
242,654	186,786	183,374	189,919	177,120	138,208	168,104
61,383	56,596	79,605	73,577	52,641	48,906	49,306
735	800	775	756	2,097	2,992	2,940
434	255	255	255	110	150	115
101	101	101	105	103	105	106
305,307	244,538	264,110	264,612	232,071	190,361	220,571
259,190	189,153	187,714	186,172	147,347	134,822	142,454
5,569	5,037	4,688	7,638	3,945	3,662	1,960
1,360	1,298	1,262	1,078	957	954	783
372	186	176	227	135	159	103
3,119	7,644	5,368	11,299	8,248	5,451	6,097
269,610	203,318	199,208	206,414	160,632	145,048	151,397
35,697	41,220	64,902	58,198	71,439	45,313	69,174
414,294	418,952	470,814	421,117	383,626	356,313	296,519
63,814	–	–	20,213	–	–	–
(19,604)	(45,499)	(116,407)	(28,214)	(33,698)	(17,750)	(9,255)
(518)	(129)	(107)	(250)	–	–	–
(250)	(250)	(250)	(250)	(250)	(250)	(125)
493,433	414,294	418,952	470,814	421,117	383,626	356,313

Bonds Issues

Canadian Dollar Bonds Issued in Canada

ISSUE/SERIES	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2002 $(000)	INTEREST
A23	10% Sinking Fund Debentures due November 15, 2003	November 15, 1978	3,265	3,265	Semi-annual May 15 November 15
33	12.375% Sinking Fund Debentures due June 15, 2003	June 15, 1983	63,300	9,970	Semi-annual June 15 December 15
40/CC	10.125% Debentures due October 23, 2003/2006	October 23, 1986	26,000	26,000	Semi-annual April 23 October 23
50/CL	10.25% Debentures due May 8, 2006	May 8, 1991	46,000	45,980	Semi-annual May 8 November 8
54/CO	8.300% Debentures due January 12, 2003	January 12, 1993	57,300	57,300	Semi-annual January 12 July 12
55/CP	8.000% Serial Debentures due May 12, 2003	May 12, 1993	15,000	2,000	Semi-annual May 12 November 12
	8.750% Debentures due May 12, 2013	May 12, 1993	50,000	50,000	Semi-annual May 12 November 12
60/CQ	8.500% Debentures due April 12, 2005	April 12, 1995	47,000	45,020	Semi-annual April 12 October 12
61/CR	7.750% Debentures due December 1, 2005	December 1, 1995	350,000	350,000	Semi-annual June 1 December 1
62	6.20% Debentures due December 1, 2005	December 1, 1995	134	14	Semi-annual June 1 December 1
64/CS	7.25% Debentures due September 25, 2006	September 25, 1996 / 2001	121,000	121,000	Semi-annual March 25 September 25
65/CT	6.75% Debentures due April 24, 2007	April 24, 1997	125,000	125,000	Semi-annual October 24 April 24
66/CU	5.125 - 5.625% Serial Debentures due November 5, 2003 - 2006	November 5, 1997	75,000	37,456	Semi-annual May 5 November 5
	5.625% Debentures due November 5, 2007	November 5, 1997	60,000	60,000	Semi-annual May 5 November 5

DENOMINATIONS	CALL	SINKING FUND OR MATURITIES NEXT 5 YEARS $(000)	RETRACTION OR EXTENSION	REGISTRAR AND TRANSFER AGENT
Fully registered $1,000 and multiples thereof	Non-callable	Annual deposits 1979-2003	N/A	CIBC Mellon Trust Company
Coupon - $1,000 Coupon - $25,000 Coupon- $100,000 Fully registered $1,000 and multiples thereof. Exchangeable	Non-callable except for sinking fund purposes	2003 - 9,970	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Callable at par on or after October 23 2003	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	2003 - 2,000	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS. Book entry only.	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS. Book entry only.	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS. Book entry only.	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS. Book entry only.	Non-callable	2003 - 8,647 2004 - 9,101 2005 - 9,590 2006 - 10,118	N/A	CIBC Mellon Trust Company
Registered at CDS. Book entry only.	Non-callable	None	N/A	CIBC Mellon Trust Company

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Bond Issues

Canadian Dollar Bonds Issued in Canada (continued)

ISSUE/SERIES	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2002 $(000)	INTEREST
68/CV	5.250 - 5.500% Serial Debentures due March 24, 2003 - 2007	March 24, 1998	86,642	58,281	Semi-annual March 24 September 24
	5.500% Debentures due March 24, 2008	March 24, 1998	336,000	336,000	Semi-annual March 24 September 24
70/CW	5.25% Debentures due June 1, 2009	March 24, 1999	646,000	646,000	Semi-annual June 1 December 1
74/CX	5.90% Debentures due June 1, 2011	April 4, 2001	491,800	491,800	Semi-annual June 1 December 1
76/CY	3.39% Debentures due November 8, 2004	November 8, 2002	19,500	19,500	Annual November 8
77	3.500 - 5.625% Serial Debentures due June 1, 2003 - 2007	April 9, 2002	35,000	35,000	Semi-annual June 1 December 1
78CZ	5.25% Debentures due December 3, 2012	October 3, 2002	210,000	210,000	Semi-annual June 3 December 3
800	4.750% Debentures due September 1, 2004	September 1, 1999	122	122	Annual September 1
801	5.410% Debentures due September 1, 2006	September 1, 2001	73	73	Annual September 1
802	4.630% Debentures due February 16, 2007	February 16, 2002	60	60	Annual February 16

DENOMINATIONS	CALL	SINKING FUND OR MATURITIES NEXT 5 YEARS $(000)	RETRACTION OR EXTENSION	REGISTRAR AND TRANSFER AGENT
Registered at CDS. Book entry only.	Non-callable	2003 - 10,462 2004 - 11,024 2005 - 11,616 2006 - 12,253 2007 - 12,926	N/A	CIBC Mellon Trust Company
Registered at CDS. Book entry only.	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS. Book entry only.	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS. Book entry only.	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS. Book entry only.	Non-callable	None	N/A	CIBC Mellon Trust Company
Registered at CDS. Book entry only.	Non-callable	2003 - 7,000 2004 - 7,000 2005 - 7,000 2006 - 7,000 2007 - 7,000	N/A	CIBC Mellon Trust Company
Registered at CDS. Book entry only.	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered $1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company

CIBC Mellon Trust Company
1600 - 1066 West Hastings St.
Vancouver, BC V6E 3X1

320 Bay St.
Toronto, ON M5H 4A6

Bond Issues

Canadian Dollar Bonds Issued in Europe

ISSUE/SERIES	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2002 $(000)	INTEREST
56/EC	7.250% Bonds due November 19, 2003	November 19, 1993	98,000	98,000	Annual November 19
58/ED	8.500% Bonds due May 10, 2004	May 10, 1994	91,000	91,000	Annual May 10

U.S. Dollar Bonds Issued in the United States of America

ISSUE/SERIES	DESCRIPTION	DATED	AUTHORIZED U.S. $(000)	OUTSTANDING DECEMBER 31, 2002 U.S. $(000)	INTEREST
22	9.375% Sinking Fund Debentures due June 1, 2003	June 1, 1978	4,737	456	Semi-annual June 1 December 1

DENOMINATIONS	CALL	SINKING FUND OR MATURITIES NEXT 5 YEARS $(000)	RETRACTION OR EXTENSION	PRINCIPAL PAYING AGENT/TRUSTEE/ STOCK EXCHANGE LISTING
Coupon - $1,000 Coupon - $10,000 Coupon- $100,000	Non-callable except upon imposition of withholding taxes	None	N/A	RBC Dominion Securities London, England Luxembourg Stock Exchange Luxembourg
Coupon - $1,000 Coupon - $10,000	Non-callable	None	N/A	RBC Dominion Securities London, England Luxembourg Stock Exchange Luxembourg

DENOMINATIONS	CALL	SINKING FUND NEXT 5 YEARS U.S. $(000)	AUTHENTICATING AND PAYING AGENT
Fully registered U.S. $1,000 and multiples thereof	Non-callable except for sinking fund purposes. Optional redemption - Tenders may be called from all holders	2003 - 456	Bank of New York 15 Broad Street New York, NY 10005

Auditors' Report

To the Unitholders of the Municipal Finance Authority of British Columbia
Pooled Investment Funds

We have audited the statements of net assets of the Money Market Fund, the Intermediate Fund and the Bond Fund of the Municipal Finance Authority of British Columbia (the "Authority") as at December 31, 2002 and 2001, and the statements of operations and unitholders' equity and changes in net assets of each of these Funds for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of these Funds of the Authority as at December 31, 2002 and 2001, and the results of their operations and the changes in their net assets for the years then ended in accordance with the accounting principles as described in Note 1 to the financial statements.

KPMG LLP

CHARTERED ACCOUNTANTS

Victoria, British Columbia, Canada
January 31, 2003

Statements of Net Assets

DECEMBER 31, 2002 AND 2001

THOUSANDS OF DOLLARS

	MONEY MARKET FUND		INTERMEDIATE FUND		BOND FUND		TOTAL	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
ASSETS								
Cash	$ **12**	27	**19**	21	**20**	40	**51**	88
Unitholder receivable	**1,073**	–	**494**	–	**3,012**	–	**4,579**	–
Investments (Schedules 1, 2 and 3)	**834,938**	680,171	**104,801**	167,125	**201,969**	171,975	**1,141,708**	1,019,271
	836,023	680,198	**105,314**	167,146	**205,001**	172,015	**1,146,338**	1,019,359
LIABILITIES								
Accrued management fees	**110**	89	**18**	26	**33**	30	**143**	145
Payable for Investment purchase	–	–	–	–	**3,461**	–	**3,461**	–
Unitholder payable	**4,366**	183	–	–	–	–	**4,384**	184
	4,476	272	**18**	26	**3,494**	30	**7,988**	329
NET ASSETS AND UNITHOLDERS' EQUITY	$ **831,547**	679,926	**105,296**	167,120	**201,507**	171,985	**1,138,350**	1,019,031

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

SECRETARY-TREASURER

Pooled Investments

Statements of Operations and Unitholders' Equity

YEARS ENDED DECEMBER 31, 2002 AND 2001

THOUSANDS OF DOLLARS

	MONEY MARKET FUND		INTERMEDIATE FUND		BOND FUND		TOTAL	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
INVESTMENT INCOME								
Interest income	$ **20,827**	29,029	**5,720**	4,395	**5,978**	7,662	**32,525**	41,086
Less management fees	**1,168**	967	**266**	205	**332**	302	**1,766**	1,474
	19,659	28,062	**5,454**	4,190	**5,646**	7,360	**30,759**	39,612
GAIN (LOSS) ON INVESTMENTS								
Net realized gain (loss)	**(31)**	-	**(2,681)**	2,197	**1,246**	2,482	**(1,466)**	4,679
Net unrealized gain	**36**	-	**400**	700	**2,657**	2,743	**3093**	3,443
Net gain (loss) on investments	**5**	-	**(2,281)**	2,897	**3,903**	5,225	**1,627**	8,122
NET EARNINGS DISTRIBUTED	$ **19,664**	28,062	**3,173**	7,087	**9,549**	12,585	**32,386**	47,734
NET ASSETS AND UNITHOLDERS' EQUITY								
Units outstanding, beginning of the year	$**679,926**	555,773	**167,120**	71,020	**171,985**	122,294	**1,019,031**	749,087
Units subscribed	**1,588,028**	1,385,927	**74,263**	112,354	**89,457**	82,210	**1,751,748**	1,580,491
Distributions reinvested	**19,664**	28,062	**3,173**	7,087	**9,549**	12,585	**32,386**	47,734
Units redeemed	**(1,456,071)**	(1,289,836)	**(139,260)**	(23,341)	**(69,484)**	(45,104)	**(1,664,815)**	(1,358,281)
Units outstanding, end of the year	$ **831,547**	679,926	**105,296**	167,120	**201,507**	171,985	**1,138,350**	1,019,031

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Statements of Changes in Net Assets

YEARS ENDED DECEMBER 31, 2002 AND 2001

THOUSANDS OF DOLLARS

	MONEY MARKET FUND		INTERMEDIATE FUND		BOND FUND		TOTAL	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
NET ASSETS, BEGINNING OF THE YEAR	$ **679,926**	555,773	**167,120**	71,020	**171,985**	122,294	**1,019,031**	749,087
Changes during the year due to:								
Operations:								
Net investment income	**19,659**	28,062	**5,454**	4,190	**5,646**	7,360	**31,206**	39,612
Net gain (loss) on investments	**5**	–	**(2,281)**	2,897	**3,903**	5,225	**1,627**	8,122
	19,664	28,062	**3,173**	7,087	**9,549**	12,585	**32,833**	47,734
Unit transactions:								
Subscriptions	**1,588,028**	1,385,927	**74,263**	112,354	**89,457**	82,210	**1,751,748**	1,580,491
Redemptions	**(1,456,071)**	(1,289,836)	**(139,260)**	(23,341)	**(69,484)**	(45,104)	**(1,664,815)**	(1,358,281)
	131,957	96,091	**(64,997)**	89,013	**19,973**	37,106	**86,933**	222,210
Distributions to unitholders:								
Investment income	**(19,659)**	(28,062)	**(5,454)**	(4,190)	**(5,646)**	(7,360)	**(30,759)**	(39,612)
(Gain) loss on investments	**(5)**	–	**2,281**	(2,897)	**(3,903)**	(5,225)	**(1,627)**	(8,122)
Distributions reinvested	**19,664**	28,062	**3,173**	7,087	**9,549**	12,585	**32,386**	47,734
	–	–	–	–	–	–	–	–
NET ASSETS, END OF THE YEAR	$ **831,547**	679,926	**105,296**	167,120	**201,507**	171,985	**1,138,350**	1,019,031
CHANGES IN INVESTMENT PORTFOLIO:								
Investments at beginning of year	$ **680,171**	555,800	**167,125**	70,980	**171,975**	122,224	**1,019,271**	749,004
Accretion of discounts	**21,065**	29,503	**6,102**	5,088	**8,512**	10,202	**35,679**	44,793
Investments purchased	**5,333,877**	7,465,178	**545,394**	775,922	**1,057,947**	700,817	**6,937,218**	8,941,917
Net realized gain (loss) on investments sold	**(31)**	–	**(2,681)**	2,197	**1,246**	2,482	**(1,466)**	4,679
	6,035,082	8,050,481	**715,940**	854,187	**1,239,680**	835,725	**7,990,702**	9,740,393
Proceeds on investments matured or sold	**(5,200,144)**	(7,370,310)	**(611,139)**	(687,062)	**(1,037,711)**	(663,750)	**(6,848,994)**	(8,721,122)
Investments at end of year	$ **834,938**	680,171	**104,801**	167,125	**201,969**	171,975	**1,141,708**	1,019,271

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

YEARS ENDED DECEMBER 31, 2002 AND 2001

1. Basis of presentation

The Pooled Investment Funds are established by and operate under Section 13.1 of the Municipal Finance Authority Act (the "Act"). Three funds are maintained:

(a) Money Market Fund which commenced operations on May 1, 1989;

(b) Intermediate Fund which commenced operations on March 25, 1994; and

(c) Bond Fund which commenced operations on May 10, 1989.

These funds are authorized to issue an unlimited number of units, each of which represents an equal undivided interest in the net assets of the respective funds, pro rata, with all other units from time to time issued and outstanding. Units are issued or redeemed at $1,000 per unit.

The financial statements have been prepared by management in accordance with the following significant accounting policies that are generally accepted in the investment fund industry:

MONEY MARKET FUND

(a) Investments are carried at cost, adjusted for amortization of premiums and accretion of discounts on an effective yield basis, which approximates market value except the investments may be marked to market value at the discretion of the Board of Trustees of the Authority should the yield on the net assets of the fund vary by more than 100 basis points from the market yield on Government of Canada 30-day treasury bills.

(b) Interest income is recognized as earned.

(c) Management fees are accrued daily at the rate of 3/20 of 1 percent per annum of the net assets of the fund and are paid monthly to the Operating Fund of the Authority.

(d) Net earnings from operations are distributed to unitholders daily as additional units of the fund.

INTERMEDIATE FUND / BOND FUND

(a) Investments are carried at market values which are determined as follows:
- Bonds and debentures – at the quoted mid-market value
- Treasury bills, short-term notes, etc. – at amortized cost which approximates market value for the Bond Fund and at mid-market value for Intermediate Fund.

(b) Investment transactions are accounted for on the trade date and gains/losses from such transactions are calculated on an average cost basis.

(c) Interest income is recognized as earned.

(d) Management fees are accrued weekly and at month-end at the rate of 1/5 of 1 percent per annum of the net assets of the fund and are paid monthly to the Operating Fund of the Authority.

(e) Net earnings from operations are distributed to unitholders weekly and at month-end as additional units of the fund.

(f) Accretion of discounts and premiums are amortized on a straight-line basis over the term of the investment.

2. Comparative figures

Certain 2001 comparative figures have been reclassified to conform with the financial presentation for the current year.

(Schedule 1)

Pooled Investments

Money Market Fund – Schedule of Investments

DECEMBER 31, 2002

THOUSANDS OF DOLLARS		MATURITY DATE	PAR	COST	% OF TOTAL
SHORT TERM INVESTMENTS:					
Treasury Bills	Canada Treasury Bill	February 13, 2003	65,750	65,466	
	Canada Treasury Bill	February 27, 2003	57,500	57,256	
	Canada Treasury Bill	March 13, 2003	102,000	101,417	
	Canada Treasury Bill	April 24, 2003	74,450	73,836	
			299,700	297,975	35.69
Bankers' Acceptance	Canadian Imperial Bank of Commerce	February 17, 2003	15,400	15,344	
	Canadian Imperial Bank of Commerce	February 28, 2003	2,750	2,738	
	HSBC Bank Canada	March 20, 2003	30,000	29,819	
	Toronto Dominion Bank	January 29, 2003	25,000	24,946	
			73,150	72,847	8.72
Discount Commercial Paper	Alcan Aluminium	March 24, 2003	12,000	11,921	
	Alcan Aluminium	March 27, 2003	4,000	3,973	
	AMT Trust	February 10, 2003	30,000	29,907	
	AMT Trust	March 20, 2003	3,300	3,280	
	Associates Capital	January 03,2003	550	550	
	Associates Capital	February 11, 2003	10,000	9,968	
	Associates Capital	February 14, 2003	17,000	16,942	
	Bay Street Funding Trust	March 21, 2003	5,700	5,665	
	Cadbury Beverages Canada Inc.	February 11, 2003	13,000	12,959	
	Caterpillar Financial Services Ltd.	March 20, 2003	7,000	6,958	
	Chevron Canada Capital Company	February 6, 2003	3,400	3,390	
	Chevron Canada Capital Company	February 18, 2003	9,200	9,166	
	Clear Trust	February 10, 2003	17,800	17,745	
	Clear Trust	February 12, 2003	10,000	9,967	
	Congress Financial Corporation	February 12, 2003	5,000	4,984	
	Credit Union Central of B.C.	March 17, 2003	10,000	9,942	
	Diversified Trust	March 19, 2003	12,000	11,928	
	Foothills Pipe Lines Ltd.	February 10, 2003	10,500	10,466	
	Foothills Pipe Lines Ltd.	February 26, 2003	6,300	6,272	
	General Electric Capital Canada	February 19, 2003	7,500	7,471	
	Household Financial Corp.	February 13, 2003	5,900	5,879	
	Hydro One Inc.	February 18, 2003	17,500	17,432	
	Manulife Bank of Canada	February 3, 2003	2,850	2,836	
	Mccain Finance (Canada) Ltd.	January 30, 2003	5,000	4,988	
	Mccain Finance (Canada) Ltd.	February 25, 2003	7,500	7,467	
	Pure Trust	February 13, 2003	16,000	15,947	
	Pure Trust	February 14, 2003	9,600	9,567	
	Rac Trust	January 29, 2003	20,000	19,957	
	Rac Trust	February 10, 2003	10,400	10,368	
	Safe Trust	January 29, 2003	20,000	19,957	
	Safe Trust	February 7, 2003	14,000	13,960	
	Smart Trust	January 28, 2003	11,500	11,476	
	Storm King Funding Trust	February 12, 2003	12,000	11,961	
	Storm King Funding Trust	February 13, 2003	7,500	7,475	
	Transalta Coporation	February 14, 2003	12,000	11,959	
	Transalta Coporation	February 28, 2003	8,500	8,462	
	Thomson Corporation	January 30, 2003	8,000	7,982	
	Wells Fargo Company	February 13, 2003	11,000	10,964	
			393,500	392,091	46.96
Total Short Term Investments			766,350	762,913	91.37
Corporate Bonds	Americredit Can Rec Trust	December 6, 2009	15,700	15,753	
	Bank of Nova Scotia	April 1, 2008	2,900	2,961	
	Caterpillar Financial Services	March 10, 2003	10,000	10,019	
	CNH Capital Canada Receivable Trust	May 15, 2010	14,900	14,937	
	Consumers Gas Company	May 1, 2003	3,000	3,015	
	GMAC Canada Ltd.	April 25, 2003	5,000	5,087	
	Household Financial Corp.	March 10, 2003	8,500	8,743	
	John Deere Credit Inc.	May 5, 2003	11,450	11,510	
			71,450	72,025	8.63
TOTAL INVESTMENTS PORTFOLIO			837,800	834,938	100.00

(Schedule 2)

Pooled Investments

Intermediate Fund – Schedule of Investments

DECEMBER 31, 2002

THOUSANDS OF DOLLARS		MATURITY DATE	PAR	MARKET	% OF TOTAL
SHORT TERM INVESTMENTS:					
Treasury Bills	Canada Treasury Bills	May 22, 2003	15,900	15,734	
	Canada Treasury Bills	September 11, 2003	63,145	61,934	
Total Short Term Investments			79,045	77,668	74.11
CANADIAN BONDS:					
Corporate Bonds	Associates Capital Corp. Canada	September 26, 2003	5,000	5,218	
	Bell Canada	May 1, 2003	5,000	5,095	
	Heller Financial Canada	June 2, 2003	5,000	5,074	
	New Brunswick Telephone	June 16, 2003	3,999	4,069	
	Nova Gas Transmission	July 15, 2003	2,400	2,557	
	Wells Fargo Financial Canada	June 2, 2003	5,000	5,120	
Total Canadian Bonds			26,399	27,133	25.89
TOTAL INVESTMENTS PORTFOLIO			105,444	104,801	100.00

(Schedule 3)

Pooled Investments

Bond Fund – Schedule of Investments

DECEMBER 31, 2002

THOUSANDS OF DOLLARS		MATURITY DATE	PAR	MARKET	% OF TOTAL	
SHORT TERM INVESTMENTS:						
Treasury Bills	Caisse Centrale	January 3, 2003	5,300	5,299		2.62
MEDIUM TERM NOTES	Aliant Telecom	October 15, 2004	2,130	2,259		
	Associates Capital Corp.	November 15, 2004	7,010	7,086		
	Bell Canada	April 30, 2004	3,400	3,422		
	Bell Canada	May 9, 2005	1,495	1,599		
	Royal Bank of Canada	February 13, 2011	1,000	1,066		
			15,035	15,432		7.64
CANADIAN BONDS						
Federal Bonds	Government of Canada	December 1, 2004	27,405	28,088		
	Government of Canada	December 1, 2005	23,640	27,260		
	Government of Canada	December 1, 2006	41,335	46,367		
	Government of Canada	June 1, 2007	9,725	11,091		
			102,105	112,806	55.85	
Provincial Bonds	Province of Alberta	December 1, 2004	4,110	4,325		
	Province of Quebec	December 1, 2005	4,450	4,828		
	Province of Quebec	June 1, 2009	6,220	6,540		
			14,780	15,693	7.77	
Corporate Bonds	Bank of Montreal	September 13, 2010	1,365	1,575		
	Canadian Imperial Bank of Commerce	October 21, 2009	3,430	3,653		
	Encana Corporation	December 3, 2007	3,260	3,356		
	General Electric Capital Canada Funding Co.	July 24, 2007	2,420	2,571		
	General Mortors Acceptance Corp.	February 2, 2004	5,220	5,412		
	Household Finance Corp.	June 1, 2007	2,080	2,193		
	Household Finance Corp.	December 1, 2006	2,165	2,222		
	Royal Bank of Canada	August 15, 2010	3,645	3,981		
	Royal Bank of Canada	April 12, 2009	2,175	2,261		
	Score Trust CreditCard Receivable	November 15, 2006	2,905	3,013		
	Sears Canada	December 15, 2004	3,590	3,735		
	Toronto Dominion Bank	April 14, 2010	6,340	6,839		
	WestCoast Energy	November 15, 2004	1,135	1,270		
			39,730	42,081	20.84	
Total Canadian Bonds			156,615	170,581		84.46
ASSET BACKED:						
Mortgage Backed - Conventional	Hollis Receivables Term Trust	April 26, 2006	4,970	5,304		2.63
MORTGAGES:						
CMHC Insured Mortgages	Penmor Mortgage # 1865-1F	June 15, 2007	189	196		
	Penmor Mortgage # 1924W	September 1, 2004	811	843		
	Penmor Mortgage # 1995 - OJ	November 1, 2003	285	292		
	Penmor Investment Services	November 1, 2006	509	533		
NHA Insured Mortgages	Penmor Loan #2331-OW	January 1, 2007	1,413	1,443		
	Penmor Loan #2341-OW	December 1, 2006	625	648		
	Penmor Loan #2372-OW	March 1, 2007	610	635		
	Penmor Loan #2381-OW	April 1, 2007	609	633		
Total Mortgages			5,051	5,223		2.59
CANADIAN PREFERRED STOCKS:						
Perpetual	MacKenzie Income Trust, Class A Pfd.		84	130		0.06
TOTAL INVESTMENTS PORTFOLIO			187,055	201,969		100.00

Auditors' Report

To the Members of the Municipal Finance Authority of British Columbia

We have audited the balance sheet of the Interim Financing and Leasing Funds of the Municipal Finance Authority of British Columbia (the "Authority") as at December 31, 2002 and 2001, and the statements of revenue, expenditure and surplus and cash flows of the Funds for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Interim Financing and Leasing Funds of the Authority as at December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS

Victoria, British Columbia, Canada
January 31, 2003

Balance Sheet

DECEMBER 31, 2002 AND 2001

THOUSANDS OF DOLLARS	2002	2001
ASSETS		
Cash and cash equivalents	$ **82**	140
Loans receivable - including accrued interest (Note 2)	**195,508**	263,522
Unamortized contractor costs (Note 3)	**399**	265
Total assets	$ **195,989**	263,927
LIABILITIES AND SURPLUS		
Bank loan payable – including accrued interest (Note 4)	**195,907**	263,505
Accounts Payable	**26**	–
Management fees payable	**–**	139
Contractor fees payable	**12**	3
Total liabilities	**195,945**	263,647
Surplus appropriated	**–**	150
Surplus	**44**	130
Total liabilities and surplus	$ **195,989**	263,927

Statement of Revenue, Expenditure and Surplus

YEARS ENDED DECEMBER 31, 2002 AND 2001

THOUSANDS OF DOLLARS	2002	2001
REVENUE		
Interest	$ **6,851**	9,165
EXPENDITURE		
Interest	**6,485**	8,617
Management fees (Note 5)	**125**	239
Amortization of contractor costs	**128**	92
Office	**64**	52
Bank charges	**9**	13
Total expenditure	**6,811**	9,013
Excess of revenue over expenditure before the following	**40**	152
Write down on lease receivables	**(276)**	–
Excess (deficiency) of revenue over expediture for the year	**(236)**	152
Surplus at the beginning of the year	**130**	127
Application (appropriation) of surplus for future expenditures	**150**	(150)
Surplus at the end of the year	$ **44**	129

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

SECRETARY-TREASURER

Statement of Cash Flows

YEARS ENDED DECEMBER 31, 2002 AND 2001

THOUSANDS OF DOLLARS	2002	2001
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenditure for the year	$ **(236)**	152
Add (deduct) non-cash items:		
Amortization of contractor costs	**128**	92
Write down on lease receivables	**276**	–
Contractor costs paid	**(253)**	(60)
Change in accounts payable	**26**	–
Change in management fees payable	**(139)**	45
Cash provided by (applied to) operating activities	**(198)**	229
FINANCING ACTIVITIES		
Increase in bank loan	**(67,598)**	116,073
Loans repaid	**324,113**	254,342
New loans issued	**(256,375)**	(370,599)
Cash provided by (applied to) financing activities	**140**	(184)
Increase (decrease) in cash	**(58)**	45
Cash and cash equivalents, beginning of the year	**140**	94
Cash and cash equivalents, end of the year	$ **82**	139

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

YEARS ENDED DECEMBER 31, 2002 AND 2001

1. Summary of Significant Accounting Policies

The interim financing program was established in 1990 and is operated by the Municipal Finance Authority of British Columbia (the "Authority") under Section 9.1 of the Municipal Finance Authority Act (the "Act"). In 1992, the Act was amended to extend the interim financing program to other public institutions (as defined) in the Province of British Columbia.

INTERIM FINANCING FUND

This program provides a revolving credit facility for tax revenue, interim funding requirements and temporary financing of capital projects.

LEASING FUND

This program provides a revolving credit facility for funding the short term leasing of capital assets.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the following accounting policies:

(a) Interest income is recognized as earned;

(b) Interest payable is accrued on a daily basis; and

(c) The Authority may appropriate surplus for current or future operations.

2. Loans receivable

The loans receivable relate to loans for the following purposes:

Thousands of dollars	**2002**	2001
INTERIM FINANCING FUND		
Temporary financing of capital projects	$ **107,777**	177,546
Short term capital borrowing	**24,021**	32,370
	131,798	209,916
POOLED LEASING FUND		
Short term leases of capital equipment	**63,710**	53,606
COMBINED TOTAL	$ **195,508**	263,522

Included in Temporary financing of capital project is $59,999,177 (2001 – $64,756,765) of loans receivable from the Capital Financing – Debt Fund relating to the refinancing of certain Capital Financing debt issues. During the year $1,546,857 (2001 – $3,562,202) was received in interest on these loans. Also included in Temporary financing of capital projects is NIL (2001 – 95,408,468) of loans receivable from the Capital Financing – Debt Fund relating to the purchases of securities. During the year $1,347,388 (2001 – 1,065,579) was received in interest on these loans.

3. Unamortized contractor costs

Under the leasing program the Authority incurs up front fees payable to On-Line Finance (the contractor), of 25 basis points (.25 of 1%) of the present value of the future lease payments due. This fee is payable at the time the lease is signed. This present value amount is then amortized over the life of the lease. The balance sheet amount represents the accumulation of the present value of those amounts paid less amounts amortized to date. In the event of an early payout by the lessee, the appropriate amount of the fee is refunded by the contractor to the Authority.

4. Bank loan payable

The Authority has an agreement under which the bank provides a revolving credit facility for the interim financing and leasing requirements subject to repayment within 30 days following demand by the bank.

Thousands of dollars	**2002**	2001
INTERIM FINANCING FUND		
Funding for revenue anticipation (tax revenue), interim funding requirements and temporary funding of capital	$ **132,197**	209,899
LEASING FUND		
Funding the leasing of capital assets	**63,710**	53,606
COMBINED TOTAL	$ **195,907**	263,505

5. Management fees

The management fees are paid to the Operating Fund of the Authority.

6. Supplemental cash flow information

During the year the Authority received interest payments of $1,911,841 (2001 – $2,716,838) on lease receivables and $4,929,642 (2001 – $6,430,467) on temporary financing/short term capital loans receivable.

During the year the Authority made interest payments of $6,484,508 (2001 – $8,578,378) on its bank loan.

The MFA building

Our designated heritage building located in the heart of Victoria, B.C. was designed by architect A.A. Cox and remains as a fine example of Edwardian Classical style. Built for the British American Trust Company, B.A. Bond Corp. Ltd. in 1912, it projects a banker's image of solidity and permanence. Ninety years later, surrounded by modern office towers, it still projects that image.

PHOTOS

Cover: TOP ROW (left to right): Cornfields, Chilliwack; Ponderosa pines, Okanagan Valley; Galloping Goose trail, Victoria; GVRD turbo generator facility, Burnaby; Hayfields, Grand Forks. SECOND ROW (left to right): Seiner, Johnstone Straight; Fisgard Lighthouse, Colwood; Snowboarder, Whistler. THIRD ROW (left to right): New Aiyansh Community Hall, Nass River Valley; Coho salmon, west coast of Vancouver Island; Greenhouse lettuce growing, Fraser Valley; Grass fields, Merritt. BOTTOM ROW (left to right): Logging truck, Vancouver Island; Grapes, Kelowna; Mountain biking, Whistler; Refiner, Burnaby. **Page 2** Mountain biking, Tofino **Page 6** New SkyTrain, Vancouver; Cornfields, Chilliwack **Page 10** Shipping grain, Prince Rupert Grain Terminals; Gardens, Williams Lake. **Page 12** Dixon Entrance Maritime Museum, Masset; Snowboarding, Whistler **Page 14** Baldwin ex-logging steam locomotive, Port Alberni

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